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With The Editors

Costly, But Progress

THERE is no sense to war, but like many other mistakes men make it brings good results along with the destruction. The World War started the automobile as well as tractors and trucks on the greatest leg of their advancement. It provided the inducement to hurry radio along, and before it was over it had furnished the impetus and the base for commercial aviation as we have seen it develop since. American chemists were suddenly thrown on their own in 1914, to build an independent industry or hibernate until peace; they produced the beginnings of one of today's most important national assets.

Napoleon encouraged the search for a canning process that would free his army's stomach from the mess wagons and in the United States the real progress in food preservation began with and because of the Civil War. The public was finally persuaded to take advantage of the new development only after the World War had shown what could be done and had also resulted in spreading canned goods through a large part of the population.

Lister's studies on blood coagulation which make possible almost every modern surgical operation would have been followed up anyway, but not so meticulously had it not been for the demands war makes on medicine. Huxley estimated that by the end of the Franco-German war the money value of Pasteur's discoveries was sufficient to cover the whole amount of the war indemnity paid in 1870 by France to Germany.

We'd hate to have to deliver a sermon in a London church on the blessings of war. But when we look for what this one might bring us, our search is drawn irresistibly to England. They have the same problems of creeping social and economic revolution we face, but posed more pressingly. They have to find their answers quickly and surely, whatever they are.

The great discoveries of this war may not be mechanical or physical. They are more likely to be social. The world has outrun itself and needs to be brought up to date in that direction. If the British Empire is rejuvenated in war, as this country was born, it will be because of an advance in thinking that we will no more be able to ignore than the invention of a true perpetual motion machine over there.

* * * IN THE NEXT ISSUE * * *

ACHIEVEMENTS IN WESTERN HEMISPHERE SECURITY

By V. L. Horoth

The military and the economic sides of this vital undertaking are interdependent, calling for interpretation of a high order in deciding whether the U. S. has bitten off more than it can chew in proposing to defend a hemisphere. Here, in Canada, in Latin-America, everyone wants to know what is being done with dollars and guns, with war industries and trade between the two continents. Where do we stand today?

100 BILLION DOLLAR INCOME IN SIGHT

By John D. C. Weldon

The complications as well as the favorable possibilities are enormous. Production far exceeding anything this country has ever known; tremendous taxes yet perhaps relatively painless because imposed on such a high and broad base; price controls struggling against the urge of defense spending to stabilize wages and living costs. A longer range article, but the questions it covers are practical now.

SECURITY SELECTION TODAY

By J. S. Williams

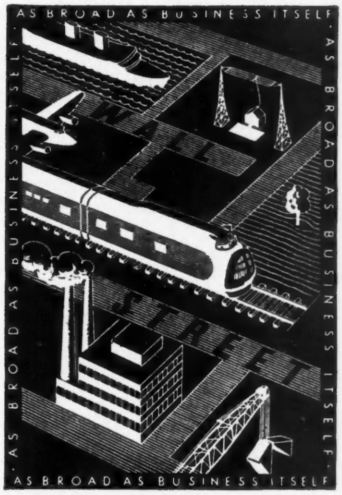
The most conservative investors are being called upon to decide whether what they have thought of as quality in a common stock is too heavily penalized at present, and whether the premiums on "growth" issues are justified. Look over the list of new highs and lows for the year made on the same day—then read this article to understand why in many cases the good stocks are moving down and the poorer ones up.

R. Hoit from Cushing.

Regardless of the calendar, it is springtime for industrial building, renewing its growth after a stunted decade. The article on page 143—"Heavy Construction Heading for New Peaks"—follows developments in the field with an eye to the trend's stamina and significance.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



The Trend of Events

THE TAX PROBLEM . . . Announcement that the Administration will propose new tax legislation to the next Congress should surprise no one. Probably for some weeks to come business men and investors will be pretty much in the dark as to the character and scope of the changes that will be sought. Whether the objectives will include some measure of regulation and reform, as well as increased Federal revenues, remains to be seen.

All are agreed on the desirability of building up an impregnable national defense, of safeguarding the Federal credit, of providing jobs for all employable persons and of bringing about the maximum possible increase in the purchasing power of the people. Since there is some conflict between these purposes, compromise is unavoidable. Obviously a drastic increase in taxes would safeguard the Government's credit more greatly than a moderate increase. But a major tax rise, affecting any large number of people, would be deflationary and hence would clash with the objective of attaining maximum employment and purchasing power.

While all taxes are more or less deflationary, the controlling consideration in the new program will relate on the one hand to *degree* of deflationary impact that can be risked, and on the other hand to political feasibility for the reason that members of the House are virtually running for re-election all the time. Taking into account both deflationary impact on public purchasing power and the political factor, it is a safe prediction that the heaviest burden of additional levies inevitably will fall upon corporations and middle-class families. If we had the difficult responsibility of framing the least objectionable and the most productive tax change, we must concede that it is chiefly to these two sources that logic and equity would direct us. There are no alternatives *more* equitable since the rich and the poor are now most heavily taxed—the latter indirectly—in relation to their ability to pay.

It is entirely possible that the added load on business enterprises will be less onerous than many now assume, since sharply rising national income will greatly increase the yield of present personal and corporate income taxes, thereby easing the strain on the Treasury.

IRRESISTIBLE VS. IMMOVABLE . . . There is only one way the average man defines and senses inflation, and that is as a rise in the prices he pays for the things he needs. If wages go up the worker does not object, but if someone else's wage increase comes out of his pocket in the form of all-around higher living costs he recognizes the vicious circle of inflation and helps it along by de-

manding, excusably, that the size of his own pay envelope keep pace. In an economy already weakened by other forces the outcome is likely to be a complete breakdown and a fresh start from scratch. A strong physique such as this country has exhibited in the past and undoubtedly still possesses can avoid the final stage of inflation.

The stock market apparently thought it saw the beginning of the process on the day Secretary Morgenthau announced the Treasury's intention to request an increase in the debt limit of $15 or $20 billion. Although it is hard to commend a type of thinking which only then discovered that the defense program would involve tremendous borrowings, that was the discovery made by many—that an irresistible force was being set in motion. A tremendous debt and a mountain of gold to supply the base. All that seemed lacking was a realization of the trend to accelerate it.

But down in Washington, under separate management, there is an immovable object as well as an irresistible force. Prices are not under any circumstances to be allowed to run away, and there are many expedients up to and including direct controls to prevent them from doing so. How are we going to have inflation without rising prices? Something must give way; either another postponement of the 1933 inflation must occur, or the N. D. A. C. must revise its opinions and policies. Whatever the upshot, we have a strong hunch that the problem as a practical matter is not as immediate and urgent as the stock market insists.

NEW INDUSTRIAL PEAK . . . Using the average of the years 1935 to 1939 as a base, the Federal Reserve Board has computed a new index of industrial production which includes fields only recently recognized as important in the national economy. On the new basis, seasonally adjusted, the high month of the triumphant twenties and for all time up to that date was 114 in August, 1929. Then the May, 1937, peak of 121 set the old record aside, only to be supplanted last December by a figure of 126. Now it is learned that the month just past has moved the index up to 127 for a new top. The process must spread and must reach a larger share of the unemployed, but it is clearly under way.

BANKING PICTURE . . . Commercial loans by New York City banks reporting to the Federal Reserve System have now risen nine weeks in a row. For both the nation as a whole and New York City alone the volume of bank borrowings is at a high point for almost three years, with the trend still upward. This is comforting to the banks, who see their earning power expanding slightly. It is one of the more orthodox signs of reviving business confidence, as well as the accompaniment of a gradual expansion in inventories. The Federal Reserve Board points out that the rate of increase in loans is by no means as great as a year ago (and that is clearly a sounder development) while the actual total is comfortably above last year's comparable figure. At the same time, the deposit turnover of New York banks has made a probably temporary dip to the lowest point on record due to increased deposits and unchanged debits. The banking picture is otherwise one that substantiates the improvement in reports from industry.

ROYALTIES POOL . . . Germany does not permit her citizens to pay the license fees and royalties regularly due to American firms; but she does expect that the flow of fees in the other direction will not be blocked. If the American licensor is also a licensee, the strictly legal rules would force it to pay fees out but leave it whistling for the money due it. The situation is obviously absurd and also dangerous, for the funds the Nazis acquire in this country are put to uses we can safely assume will do us and our defense program no good. Correction of this policy of supporting the machine that threatens us should be immediate. A resolution put before the Senate in June (S. J. Res. 284) provides that payments to foreign firms shall be deposited in a pool from which the debts of the same nationality shall be satisfied before remitting the balance. This matter should not be allowed to meander casually through committee meetings; it should be attended to in the first week of January.

STRATEGIC MATERIALS CHECK-UP . . . The British have discovered in the ruins of German planes shot down wires insulated by stringing glass beads along them, evidently reflecting a shortage or failure of rubber substitutes. In the last war such clues indicated the approach of a breaking point, and although that meaning can not be read into anything found yet, we can at least appreciate the dependence of our own armament industry upon its raw materials. The situation in the "strategic" materials, where the N. D. A. C. is concentrating a good share of its attention, is worth frequent checking.

Out of the fourteen items on the War Department's list of strategic materials, it begins to look as if only two will continue long as problems. Rubber and tin both come from the same part of the world, an area we must now consider unreliable as a steady source for our tremendous needs. Rubber can be grown in Latin-America and its cultivation there is being encouraged, but the process is slow; the same objection applies to guayule as a source. With an adequate supply on hand we could last until production of substitutes came close to demands. Latest figures, however, despite every effort to build up a stockpile and despite new records in the amount of importations, show less than nine months' supplies here and afloat to the United States. The steady improvement in our rubber statistics must be extended further.

The Advisory Commission has already estimated tin stocks as equivalent to more than a year's supply, with records for receipts being set each month. The desirable margin of safety, even allowing for increased consumption in the boom caused by the defense program, is rapidly being attained.

As I See It!

BY CHARLES BENEDICT

NAZIS SUFFERING FROM INDIGESTION

After every bite Hitler declared his hunger had been appeased, yet he couldn't resist reaching out for and swallowing other tempting morsels that came readily to his hand. As a result he has had a tummyache for a long time—as far back as his conquest of France. He chewed too rapidly and not too well.

His failure promptly to follow thru against Britain can be attributed in a large measure to this weakness. It has much to do also with the stalling of his Mediterranean campaign which should have been pushed when the shattered morale resulting from the French capitulation was at its height.

When Hitler finally got ready, the situation had changed. The delay that enabled Britain to build a strong defense also served the French in strengthening their bargaining position as the strategic value of Colonial France grew for the Nazis. Today, solving the problem of the colonies becomes increasingly difficult because of extensive demands by Mussolini, and the determination of commanding French generals to fight to hold them no matter what Petain agrees to give up.

This conflict has resulted in a great setback for Hitler and is responsible for the failure of his attempt recently to line up a European bloc against Britain. His propaganda to prove to the United States that England's was a lost cause also suffered defeat—and brought the certainty of even greater American support for the English.

Germany's position has considerably changed since she overran the Western European States and subdued France. Her failure to overcome the British has chained her to the continent. Every move to break through to Africa and the Near East is fraught with the greatest risk—which thus far Hitler has not succeeded in minimizing.

At the same time, as matters have developed, France has become much more important to the Nazis than Italy. And it is being said that Mussolini is in great fear of being sacrificed to German necessity.

Surrounded by the hatred of conquered nations—obliged to woo a weak and elusive France—distrusted by his axis partner—Hitler turns to Russia for relief. It is true that his occupation of Rumania points a dagger at the most vulnerable sections of Russia, yet I doubt whether he can count on a Russian agreement as anything more than a diplomatic victory which he will use as a plaster to cover his recent wounds.

The Russian press has made pointed remarks about the German failure to conquer England and the freedom with which the Royal Air Force ranges over Europe at will. Nor has Germany been able to break the British blockade thus far. We can therefore expect a most realistic attitude toward German proposals on the part of Russia.

As the conference begins, the Turkish press is frankly skeptical of German confidence in an ultimate victory over Great Britain. Only this summer Franz Von Papen, the German Ambassa- (*Please turn to page* **175**)

Sawders from Cushing

Budapest fears the Nazis, but no more than Hitler dreads the sputtering time-fuse along the Danube.

Wisest Market Policy Now

Although further advance is indicated at this writing, fast buying stampedes can't last. We would retain some cash, take carefully selected positions only in sound issues which have not run wild on premature inflation talk.

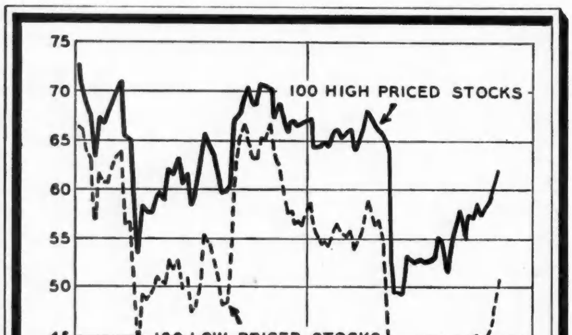
BY A. T. MILLER

In order to arrive at a rational opinion on the market outlook it is necessary first to analyze the character of the advance which began last Thursday, two days after the re-election of Mr. Roosevelt.

No single factor can give the answer; and in our opinion newspaper interpretations crediting the whole thing to a sudden revival of "inflation sentiment" are only partially correct. While it is impossible to determine the precise weights of the variety of sentiments involved in a spectacular market change, we believe all of the following considerations fit into the picture:

1. Clarification of a long awaited news event often results in market action which, either in direction or vigor, double-crosses the seemingly logical consensus that has been previously built up. To a great many people it seemed reasonable to expect that disappointment over the outcome of the election would induce selling.

2. While the market sold off sharply on increased volume in the first session following the election, retrospective examination shows—what was not so easily recognizable at the time—that the reaction began to lose momentum in the last hour of trading. That is, the rail average and the commodity futures index rallied from 2 P. M. to the close and the industrial average added only a small fraction to earlier losses.



3. On Thursday there was no follow-through to this reaction, the industrial average opening 22 cents above the previous close. The market was making gradual progress before the news broke that Secretary of the Treasury Morgenthau had announced the Administration would ask Congress to raise the Federal debt limit by $15,000,000,000 or $20,000,000,000. That announcement served as a reason or excuse—excuse, we think—to touch off the nearest thing to a buying stampede that has been seen since the rise which followed outbreak of war in September, 1939.

4. The appropriations and authorizations already voted by Congress had made it beyond question that many billions would be added to the Federal debt, making increase in the statutory limit inevitable. We fail to see how intelligent investors and traders could have figured it any other way; and it does not bring inflation any nearer whether the debt limit be raised in successive steps a few billions at a time or in one jump to take care of borrowing for two to three years.

5. Even though Mr. Willkie was publicly committed to carry on the armament program, the election did end any possible shred of doubt as to the continuity of the program and the resultant spending. It removed one of the major uncertainties which had been operating, together with the war, to prevent the market from capitalizing a boom volume of business and higher earnings of the majority of corporations. Although higher taxes are indicated, action will not be taken until next year. Although the possibility of our direct involvement in the war cannot be put entirely out of mind, there seems little basis to fear it before spring at the earliest. We believe the considerations here advanced have been by far the most influential in the market's rise. With the war stalemated and our own political picture clarified.

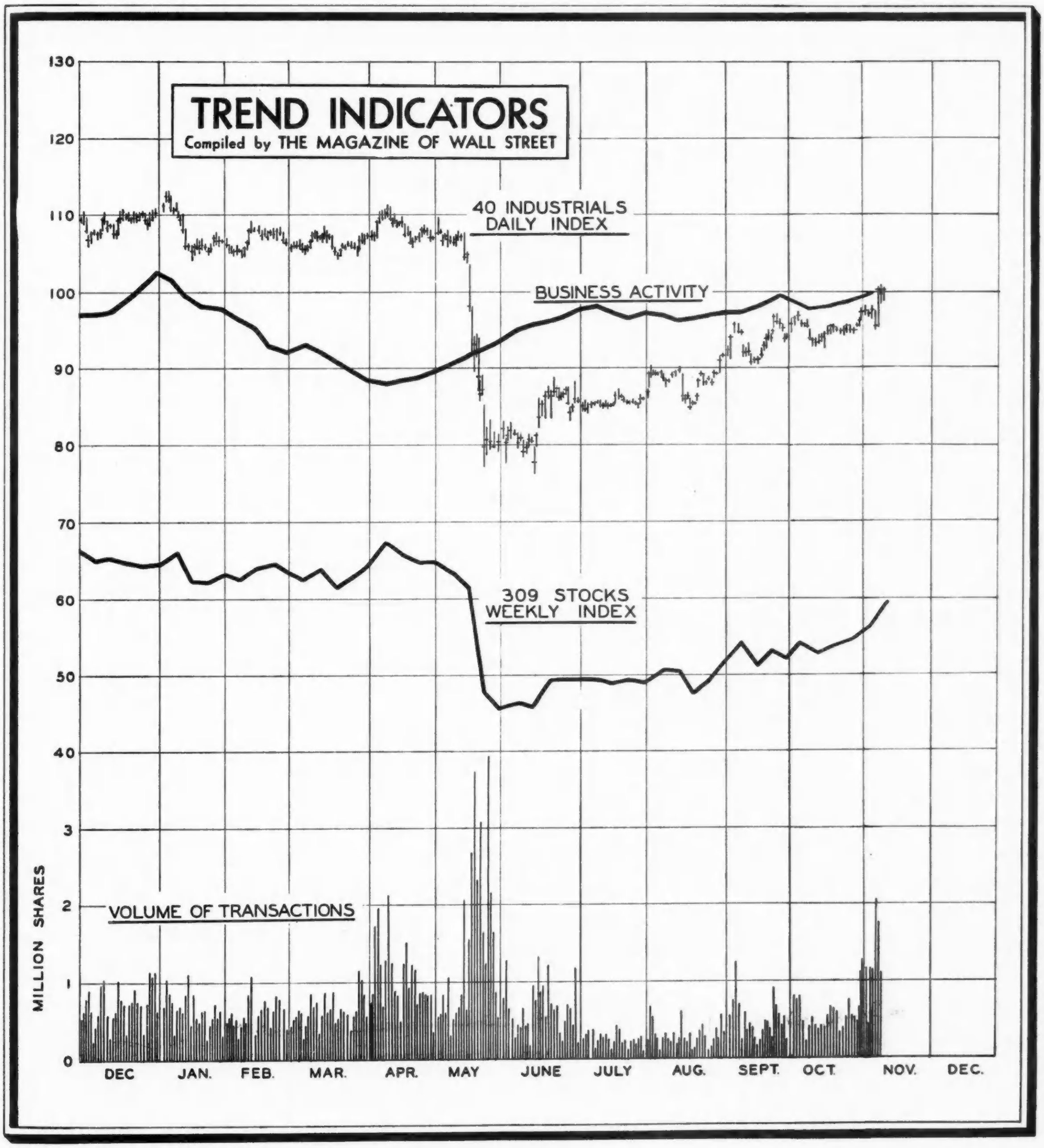
opportunity has been promptly seized to make some hay.

Well, then, where do we go from here? Can this be safely accepted as a sustained bull market? Or is it another of the stampedes—short in time regardless of scope of price change—that we have seen at long intervals since the early summer of 1938?

Our view for some time has been that the familiar terminology of "bull" or "bear" markets does not fit these times. There has been no long sustained, orderly movement—rationally geared to rising business and earnings—since the 1934-1937 bull market topped out. Instead, the market has been confined to a fairly broad "range of indetermination," with the greater part of the time spent in narrow trading range formations and with the more dynamic intermediate fluctuations, both up and down, usually directly related to news events.

From March, 1935, to March, 1937, the range of the Dow-Jones industrial average was approximately 98 points and over the same period the net advance in the Reserve Board index of industrial production (present revised index) was 32 points or from 85 to 117. From the March low of 1938 to date, the range of the industrial average has been approximately 59 points, although the net advance in the production index has been 43 points or from 84 to 127. The last peak in the market was made in November, 1938, at 158.41.

At this writing we are 26 points above the low made following the French collapse and 17 points below the



top made on the war rise in the autumn of 1939. For many months prior to the disastrous 10-day break last May, the market had fluctuated within the range 153-144. Now should the market in the immediate future continue to advance at anything like last Saturday's pace, it would very quickly—possibly even before this article is read—enter the bottom area of the above range and there can be scant technical doubt that it would meet there a much more formidable resistance than it has had to contend with heretofore in all of the intermediate recovery from the May-June lows.

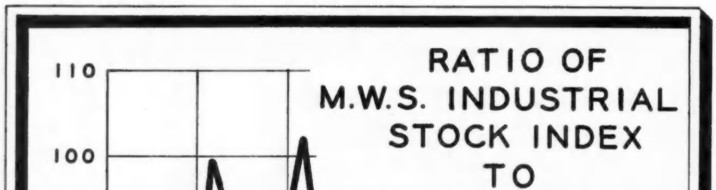
Moreover, while we have stated previously that the inflation prospect is not the real justification for this advance, the character of the market leadership shows that a good many people think the contrary and are acting accordingly. To the extent that such buying is involved—rather than intelligent buying of earning power—it does not increase our confidence in the outlook for sustained advance because we are quite sure that inflation fears or hopes are premature and we doubt that a mistaken inflation sentiment can be long maintained.

Again, at some point in this excited performance—whether at 140 or 145 or 150—it will be recollected that the election has removed only one major uncertainty, that the world is still at war, that the risk of our involvement still hangs over us, that higher taxes will have to be reckoned with and that the next tax bill may be a reform and regulation measure as well as a revenue measure.

Putting all this together, we think a substantial element of risk would be involved in jumping into the more popular market leaders here on the belief that sustained advance is ahead. On the other hand, if this is a relatively short stampede like that which followed outbreak of the war, the question is will it prove equally dynamic? The war rise took the industrial average up approximately 20 points from the 135 level, which by coincidence was also the pre-election top. We doubt that 20 points will be added to the previous intermediate advance of about 23 points from the late spring low. Hence we believe that the investor playing for the rest of this move would be seeking milk, with the cream gone; and that this would be even more probable if there has been further brisk advance before this analysis reaches the reader.

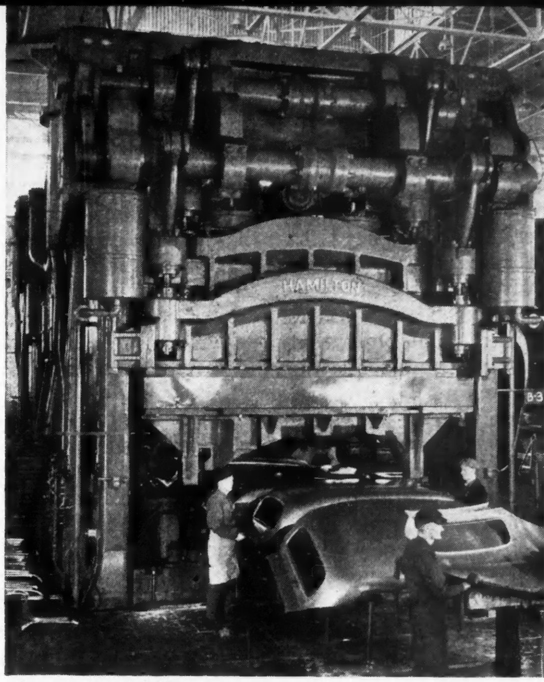
Hindsight, of course, tells us that in the kind of erratic markets we have had for more than two years those investors fared best who shopped for earning power when the market looked black and who let others join belatedly in the buying stampedes. Human nature being what it is, most of us have been unable to follow this counsel of perfection. So today one entirely in cash can only stay that way or compromise.

Compromise appeals to us on the reasoning that boom business is assured for an indefinite time and that numerous stocks have not yet run wild. We would not stake all cash by any means on the development of a true bull market and we would favor taking only such selected investment positions as one could contemplate carrying with reasonable equanimity through either short-swing or intermediate setbacks in the event either of technical reversal or some accident in the news.



The general requirements of selection, we think, are as follows: Stocks that have not risen spectacularly in this rally; of companies not tied down by fixed selling prices; of companies not hit harder than average by increased taxes; and of companies that have demonstrated ability to adjust themselves profitably to new circumstances.

One of the special charts accompanying this article brings out in striking fashion the very low ratio which recently prevailed between our weekly index of 309 stocks and the Reserve Board production index. It very likely will remain in a generally low range under war conditions but it illustrates that even a relatively moderate rise in the confidence factor, which determines price-earnings ratios, could produce substantial rise in valuations wholly apart from prospective changes in business and earnings. The second special chart shows both high price and low price stocks participating in the recovery and hence no evidence—often provided by lag in high grade stocks—that investors have been getting out while indiscriminating speculators got in. It is worth noting that all through 1938 every rally tended to be concentrated in the cheaper grades, that this became less so in 1939 and that the "quality measure" has tended to become still stronger this year. —Monday, November 11.



Courtesy General Motors

Reverse Recovery

DURABLE GOODS LEADERSHIP AND THE NEW INDUSTRIAL AMERICA IT IS CREATING

BY JOHN D. C. WELDON

For the first time since the great boom of the period 1923-1929 we are in a major cycle of economic expansion characterized by sustained activity in capital goods at new high levels of production. The relationships and implications involved invite thoughtful consideration because of their bearing upon the business outlook and upon the momentous economic problems which will confront us in the post-war world.

The normal function of an economic system is, of course, to provide consumer goods and services. The normal function of capital goods is to enlarge or improve the facilities through which consumer demand for goods and services is satisfied.

In an ideal economic system the ratios between consumer demand, business buying, production of consumer goods, output of capital goods and the purchasing power of the various major groups of gainfully occupied individuals would be constant. But it does not work out that way, which is why we invariably have periods of excess followed by recessions or depressions.

Major sources of unbalance are variations in business buying and in output of capital goods. The tendency of these factors is first to lag behind consumer demand and purchasing power, later to rise too far above them. Periods of recession or depression are proportionate to the preceding periods of excess. Major deflation of credit or commodity prices or both are usually far more influential factors in lengthy and deep depressions than correction of previous inventory and production excesses. This is to say that inventory and production excesses, if not accompanied by other elements of serious unbalance, are subject to relatively rapid correction.

The present major recovery cycle dates from the late spring of 1938. On the financial side, it differed, of course, from all pre-New Deal recovery cycles in its dependence upon the sparkplug of Federal deficit spending, rather than upon private spending and productive investment. But on the economic side it was, up until the outbreak of the war, characterized by absence of important speculative excesses and by relatively close balance of supply-demand relationships.

By August, 1939, just before outbreak of war, consumer demand for general merchandise—which had dropped by 15 per cent in the 1937-1938 depression—was back to the 1937 high point, which in turn approximated the 1929 high; output of non-durable goods had recovered 43 per cent of the ground lost from the 1937 high, and output of durable goods had regained 54 per cent of the depression decline. Superior recovery in the latter index was due to consumer's durable goods, including residential building, rather than to capital goods.

Start of the war brought not a new economic cycle but a completely new phase of the existing upward cycle. Business men began immediately to anticipate increased need as regards both inventories and capital facilities. Demand for capital goods, as reflected in new orders, shot up nearly 70 per cent in two months to a level only some 18 per cent under the 1937 high. With the launching of the U. S. national defense program early last summer, this demand was further and greatly enlarged, with the result that by late October new orders for capital goods of all kinds had risen about 10 per cent above the 1937 high and about 32 per cent above the 1929 high.

Assuming indefinite continuation of the armament program, the underlying situation calls inevitably for a lengthy period of unprecedented activity in capital goods. The reason is two-fold. On the one hand, the capital goods recovery of 1936-1937 was short-lived, making up a relatively small portion of the obsolescence of producing facilities accumulated in prior years of depression. The net result of low average output of capital goods over the decade following the 1929 smash was greatly to increase the average age of all varieties of capital facilities in use. On the other hand, the vast armament expenditures can be expected to create a need for productive capacity far in excess of that built in the boom of the '20's.

Although reliable statistical information on the present degree of obsolescence in capital facilities is very limited, a few samples suffice to indicate a huge potential demand for expansion and modernization. For instance, only 30 per cent of the metal-working machinery now in use is estimated to be less than ten years old, whereas the percentage was 52 per cent in 1930. Only 25 per cent of the privately owned electric generating capacity is less than ten years old, against 65 per cent in 1930. Only 14 per cent of railroad freight cars are less than ten years old, against 34 per cent in 1930. Only 6 per cent of the railroad locomotives in use are less than ten years old, against 20 per cent in 1930. Finally, only 8 per cent of non-farm housing units are less than ten years old, against 28 per cent in 1930.

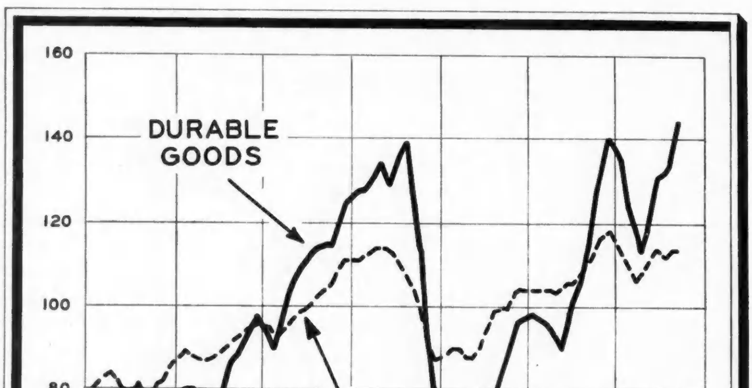
Among such illustrations the age figures of metal-working machinery are of greatest practical significance for the purpose of this article. There can be little doubt that this rough approximation of machine obsolescence applies in greater or lesser degree to the great bulk of all types of machine tools now in use and even more extensively to heavy industrial machinery.

The Potential Demand

It makes interesting, but wholly academic, theorizing to regard the difference between output of durable goods over the past decade and that of the 1920-1929 decade as an accumulated deficiency or backlog that must now be made up. For the past decade to have equalled the preceding decade in output of durable goods would have required more than $100,000,000,000 of such output in excess of what actually was produced.

Yet actual quantitative shortage in the present supply of durable goods probably has little or no practical relationship to the above figure; and actual qualitative shortage is equally theoretical insofar as any aggregate figure is concerned. For example, an over-supply of office buildings and hotels was created during the late '20's and there was very little such building during the past decade but no shortage exists today. Again, even allowing for a protracted armament boom, it is improbable that there will be need for installation of anywhere near as much electric generating capacity as was installed during the '20's.

But while we cannot reduce the matter to precise statistics, it is an undoubtedly true generalization that, in relation to visible current and probable needs over the next few years, there is an urgent deficiency—both quantitative and qualitative—in capital goods which, whatever the total of billions involved, is sufficient to keep the capital goods industries operating at capacity for some time to come. Moreover, because of the specialized requirements of the armament program, a proportionately larger volume of capital goods will be required than would be required for a normal peacetime business boom of equal scope.



Hence, as far ahead as can be seen, the only limit on capital goods production is the matter of capacity. As it takes capital goods to make capital goods, expansion of facilities for producing such goods will itself be a major factor in the increasing activity.

As long as the combined stimulus of British war orders and domestic armament spending is effective, a strong upward spiral in aggregate business activity is inevitable. On the one hand, a boom in capital goods is being fed both by the war and armament orders and by sharply increased demand for all kinds of consumer goods. On the other hand, boom

activity in capital goods—reflecting itself in increased employment and payrolls—creates increased demand for consumer goods.

In the two months August-September more than 1,000,000 jobless persons got jobs in private enterprise. While October employment statistics are not available as this is written, there was undoubtedly a further substantial gain. Payrolls have increased even more sharply than employment, reflecting both extension of hours of work up to the legal maximum in many industries and overtime pay in others. The Department of Commerce now estimates the 1940 national income at approximately $75,000,000,000, which in terms of present prices exceeds the purchasing power of the 1929 national income.

To date the rise in demand for consumer goods has been much less spectacular than that for capital goods, but, of course, the latter always are subject to the wider swings. From the recession low in the spring of 1939 through August of this year the Reserve Board index of output of non-durable manufactures advanced from 101 to 113, a gain of nearly 12 per cent. Since August there has been a sharp rise in new consumer goods orders placed by business men and some further rise in production.

Over the same period the Reserve Board index of output of durable manufactures advanced from 90 to 134, a gain of approximately 49 per cent. Here, too, there has been further rise since August but, due to inadequate capacity, output is lagging far behind the pace of new orders. Indeed, most recent data indicate a level of capital goods orders at least 50 per cent in excess of what can be met by present facilities. Hence order backlogs have increased greatly and are currently continuing to expand.

There are several contingencies which might possibly restrict the additional rise in consumer goods volume. A sharp rise in personal income taxes is one such contingency. Excessive price rise would be another. Application of priorities affecting key materials might interfere with production of some types of consumers' durable goods. Such contingencies, of course, would have to be given greater weight in the event we should become involved in war. But as of today the bullish indications are predominant.

A protracted capital goods boom has both unfavorable and favorable implications for the long range future. There is, of course, no such thing as a permanent capital goods activity at capacity levels. The need for such facilities eventually declines—as it will ultimately do in the case of armaments and war orders—and we suddenly find ourselves confronted with a downward economic spiral and much over-capacity on our hands. Certainly in an unregulated capitalist system the aftermath of this fast developing boom would inevitably be a major depression.

Courtesy Crucible Steel Co.

Pouring steel from ladle into 5-ton ingot moulds

There is the rub. The greater the armament-stimulated activity, the greater the following depression. But there are still probably 6,000,000 employable persons out of work today. To restrict the boom before the unemployment problem is solved would be a counsel of timidity, a confession that we are scared to use our human and material resources at maximum effectiveness because we doubt our ability to continue doing so.

If there is any certainty in this outlook it is that the Roosevelt administration will be inclined to put armament and employment needs first for a considerable time to come and to cross future bridges—or try to—when we come to them. In the writer's view, there is no more reason to expect that private enterprise can assume the responsibility of solving the post-war economic problem than it could be expected to plan and direct the armament program.

The chances are that when the test comes the only feasible cushion will be further Government spending—merely shifted from armaments to something else. How long can we juggle that ball of Government spending in the air without disaster to the national credit? I don't know, but we are sitting on more than $20,000,000,000 of gold and a vast realm of fiscal legerdemain is yet to be explored. So I suspect that *(Please turn to page 174)*

Happening in Washington

The Third New Deal Administration

BY E. K. T.

Four more years of Roosevelt, is the verdict of the voters, four more years of the New Deal at home and of the Administration's aggressive foreign policy.

What course will the President follow during his third term? Will he look upon this vote of confidence as a mandate, as in 1936, to press ahead the program of social reform and hit back at his opponents? Or will he view his decreased popular majority as a signal for a breathing spell and for a program which will heal old wounds and bring about national unity?

Or will he try to do both at once, inconsistent as it may seem, using the latter course as the means to accomplish the ends of the former? The prospect, in the writer's opinion, is that he will attempt just this.

Foreign policy and the defense program are paramount now, and if the election means anything it is an endorsement of the Administration record in these fields. The nation can unite behind these programs, which were scarcely an issue in the campaign, and in doing so it can forget some of the campaign bitterness. Independent movements are afoot to promote national unity, and preoccupation with defense will help if encouraged by the President, and the Administration has everything to gain and nothing to lose by such a course. But the President has said that the defense program will not be allowed to interfere with his social reform program, and the New Dealers are not so preoccupied with defense that they will allow a reaction in other affairs. While working for unity and defense the Administration can clinch its domestic program and make many further advances.

First moves of the Administration will be in the direction of more aid to England and more hindrance to the Axis powers. This may take many forms "short of war." More fighting planes will be sent to England, and she will be given the output of our new airplane and munitions factories and probably shipping facilities. If credits are needed, the Johnson and neutrality laws will be altered to extend them, and if this is not enough the U. S. will return to its 1916 policy of freedom of the seas and armed neutrality, perhaps to the extent of using our navy to convoy our merchant ships to England. There will be more aid to China, a stiff tone with Japan. This may lead us to the brink of war, and while the President is pledged not to fight except to protect our interests, we may soon be a virtual ally of England. Meanwhile Latin American nations will be tied more closely into our orbit with loans, trade, propaganda, and every means available.

The defense program will be speeded up. Its groundwork is well laid, but the political campaign caused some delays. The program will also be enlarged, with huge new appropriations and many more new plants. Machine tool, automobile, steel, and other key industries will be virtually regimented in order to get maximum concentration on defense production.

President Roosevelt should have an easier time with Congress than he has had for the past two years. The Democratic majority, though still slim, is larger than before, and the Republicans and anti-New Deal Democrats will not be so prone to form obstructionist blocs. Although many members of both House and Senate held their seats by the skin of their teeth, showing a sharp division among their constituents, their reelection can be interpreted as a mandate to support the President, and this they will do at least for the first year of the new Congress.

The New Deal reformers who guided the President's course for eight years and who successfully put over the third term campaign are still in their posts of confidence and influence, and they still have their dreams of making America over. The defense program and the need for national unity instead of thwarting these plans will become a vehicle for advancing them. There will be further concentration of government power in Washington, further supervision of business, more federal spending and planning and managing, less carte blanche for private enterprise.

Price control will be one of the first steps. The Administration fears its present plan of voluntary policing of prices will not be sufficient to ward off an inflationary spiral fatal to the defense procurement program, and at the first sign of a break there will be control legislation. Control of investment is next in order. Because capital

goods are needed for defense, private industry will be told it cannot expand indiscriminately and without assurance from Washington that it fits into the national economic plan. This will be an emergency measure, applied gradually, but with features of permanence. The investment funds of insurance companies will be more or less channeled by the government as bank investments are now. New legislation for control of credit and inflation, kept under cover for months, will be pushed through soon. Public ownership of utilities will be advanced, probably starting with a defense power grid. Many of the novel ideas for business regulation talked around when the T N E C started up will come to the fore again. Relief will be put on a permanent basis, the food stamp plan and federal-aid housing will be expanded, and in many other ways the ordinary citizen and business man will be taught or brought to look to Washington for guidance.

Four more years of all Roosevelt policies, foreign and domestic, is what the voters have decreed, and the decks are cleared for advancing these policies at a greater rate than before.

CAPITOL BRIEFS

Labor unity is one of the prime objectives of the Administration. This is made easier with John L. Lewis out of the way and the waning influence of his more radical supporters. Sidney Hillman is now top man in labor. If unions can't be induced to agree on a voluntary plan, there will be legislation to curb wage hold-ups, work stoppages, and jurisdictional strikes in essential industries.

Continental self-sufficiency will be pushed this winter as corallaries of both the defense and Good Neighbor programs, and to weaken Latin-American economic ties with Europe. Nelson Rockefeller heads this up and he has a rapidly expanding staff of experts. Some of the more visionary schemes, such as a huge cartel, are still in the air, but are being revised to a more practical basis.

Wide World Photo

Sidney Hillman—top laborite.

Control of the press has long been rumored in Washington, and during the past few years several attempts have been made to influence publishers to be more pro-Administration. Now these rumors are flying again. First step may be through control of government information, a form of censorship. White House aide Lowell Mellett, a former New Deal editor, has quietly staffed many government agencies with his own information men, and publicity policy is being co-ordinated. A central information agency, like that during the World War and tried once in 1934, may be created; then correspondents could be held to "official" information and only "friendly" writers permitted to get original material.

Fifth column activities will be attacked vigorously by the Administration, partly for political purposes but mainly because Federal agents claim to have much knowledge of plans for industrial sabotage. All factory operators are being urged to take special precautions. Much of this is justified, but some attempts to thwart potential spies go to ludicrous extremes. German diplomatic agents are suspected of heading up much propaganda and even espionage activity, and the drive on fifth columnists may well lead to a break in diplomatic relations with Germany.

Campaign expenditures will be investigated, and charges that big business tried unsuccessfully to buy the election will cause much rancor. As a partial offset, the Administration may press latent investigations of some of the more corrupt local political machines, both Democratic and Republican. Amendments to the Hatch "clean politics" act may be in order, since there are complaints from both parties that it has not operated as it should.

Supreme Court may become a totally New Deal organ, since the four conservative Justices are well along in years, two of them nearly 80. Roosevelt has already made scores of appointments to key judicial posts and may be the first President to name the entire Supreme Court bench.

Tax laws enacted last summer will be revised in the spring, unhampered by political considerations. More revenue must be provided, and this can come only by taking more out of business earnings. Treasury feels recent laws are too easy on big corporations, and many business-reform ideas will creep in during the revision.

Deficit financing plans must be revised soon since the $49 billion debt limit will be reached at an early date and the Treasury does not like the short-term securities required by the first defense tax bill. The debt limit may be removed entirely, and there is some consideration of expanding the "Baby Bond" plan to get more money direct from the public instead of financing through banks. Long-term securities are better suited to insurance companies and other investors than to banks, and hence favored by the Treasury.

Impact of New Taxes on Third Quarter Earnings

Some Companies Hard Hit Although Profits of Most Are Well Above a Year Ago

BY J. S. WILLIAMS

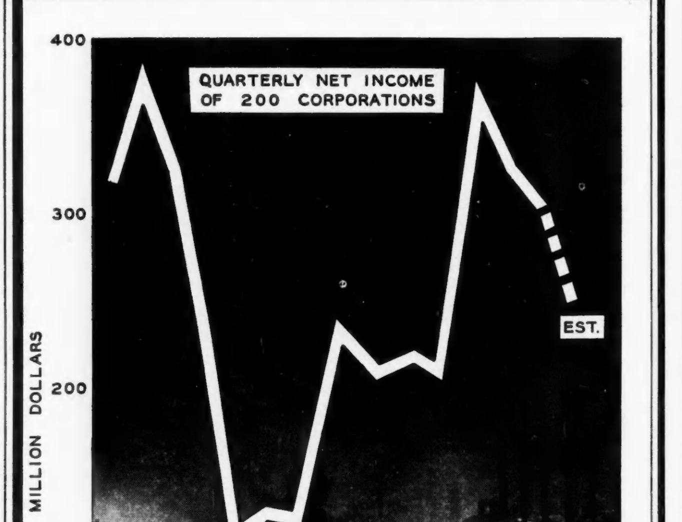


Photo by F. P. G.

MORE than usual significance attaches to this year's crop of third quarter earnings reports. First of all, corporation reports for the quarter this year afford the first opportunity to measure more adequately the impact of war and higher taxes upon earnings. It will be recalled that the third quarter of 1939 comprised the first three months of the European war. Hence the results this year have the advantage, for purposes of comparison, of a full year's background of war months. During these months, investors have been compelled to view the trend of events with conflicting reactions. On the one hand, has been the rising tide of industrial production under the impetus of billions of dollars in war orders, while on the other hand there has been the tempering factor of rising costs and substantially increased taxes.

With the passage of the second tax bill of 1940, increasing the normal corporate tax 33 1/3 per cent and levying heavy taxes on excess profits, many investors have concluded that companies with large defense orders on their books will not be permitted to make much money on this business. In short, it is feared that such companies are facing a period of "profitless prosperity." Whether or not these fears may ultimately be borne out, third quarter earnings reports do not reveal any real basis for them at the present time. What the reports do reveal, however, is that those companies which are rather definitely removed from the scope and effects of the defense program are going to be hard put to sustain their recent level of earnings, while discharging a substantially larger tax liability.

According to a tabulation made by the National City Bank of the statements of 350 leading industrial corporations, combined net profits of these companies in the third quarter were down about 14 per cent from the second quarter, but were higher than the third quarter of last year by about 23 per cent. For the first nine months of the current year these same companies showed combined net profits 42 per cent larger than in the same months a year ago. At first glance, this would seem to be a pretty impressive showing. It should be remembered, however, that the comparison is being made with those months in 1939 when business as a whole was something less than flourishing.

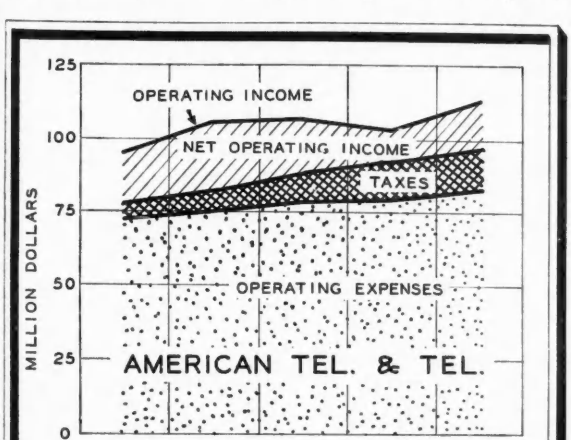
The fact that earnings in the third quarter this year failed to measure up to the second quarter level, reflects to a large degree the toll exacted by the taxes embodied in legislation which was not effective in the second quarter. Actually, the legislation did not become law until October 8, last, with the signature of President Roosevelt. The provisions, however, were known in sufficient time to permit allowances for the increased liability to be made in third quarter statements.

As a result not a few companies charged against third quarter earnings their full tax liability, under the new levies, for the first *nine* months. Some companies retroactively reduced previously reported earnings for the first and second quarters by the amount of the higher tax obligation. Other companies preferred to postpone this onerous obligation until the year-end. The net result has been to distort reported earnings for the third quarter and the nine months, and the utilization of these results for purposes of comparison could easily prove misleading, if allowance is not made for the manner in which various companies handled the problem.

Of the major industrial groups, the showing made by the steel industry both in the third quarter and the nine months was easily one of the most impressive. Twenty-five steel companies, exclusive of United States Steel, reported aggregate net profits for the nine months of $49,693,000, comparing with only $21,195,000 in the same months of 1939. This was welcome news to many thousands of investors, who after many lean years, saw a good chance of cashing in on the orders which threaten to virtually swamp the No. 1 defense industry. Holders of the shares of most steel companies had become inured to, at best, only brief periods of profitable operations and sporadic dividends. Many steel companies entered the fourth quarter with operations at capacity and with a backlog of unfilled orders sufficient to assure capacity operations for some months to come. Moreover, the full impact of defense business is still to be felt.

Most of the steel companies will be under no obligation to pay excess profits taxes, at least not for 1940. Using the 8 per cent allowance on invested equity capital for the purpose of computing excess profits taxes, the indicated allowance would still permit a further sizable gain in earnings before incurring any obligation for excess profits taxes.

This is not to imply, however, that taxes this year have fallen lightly on the steel industry. In the first nine months U. S. Steel Corp. reported net profits of $69,418,070. In the same period the company paid taxes totaling $62,746,071. It was almost an even split between stockholders and the tax collector. In the third quarter the company's shipments averaged 85.2 per cent of capacity, compared with 54.6 per cent last year. The backlog of orders at the end of September was equivalent to about two months' business. It is noteworthy that while 16 per cent of the company's total deliveries in the first nine months were for export, of which about half went to England, actual definite and direct shipments for our national defense accounted for only a small percentage of total business. Dividends paid on the common stock have totaled $3 a share this year.



After setting aside $24,500,000 for taxes, or the equivalent of $8.21 per share of common stock, Bethlehem Steel was still able to show earnings equal to $9.72 a share for the common, comparing with $1.88 a share for the same period a year ago. Exports in the first nine months of this year accounted for 28 per cent of the company's shipments, more than double the average for the past three years. Unfilled orders on the company's books at the start of September amounted to $1,123,081,930! The bulk of these orders were for shipbuilding and special ordnance products.

Steel Earnings Uniformly Good

Youngstown Sheet & Tube, with operations only indirectly stimulated by defense orders, showed earnings equal to $1.57 a common share in the third quarter, and $2.77 a share in first nine months, comparing with 33 cents and 41 cents a share in the corresponding months of 1939. Fourth quarter results promise further important gains.

Third quarter earnings of Jones & Laughlin were the best in more than a decade. Encouraged by these results and the prospect of well sustained earnings in the months ahead, directors are understood to have under consideration a plan for discharging accumulated preferred dividends totaling $44.25 a share on 587,139 shares of 7% preferred stock.

With net rising to $12,633,333 in the first nine months, or $1.86 a share for the common, comparing with less than $4,000,000 a year ago, Republic Steel has liquidated all accumulated preferred dividends and may shortly place into operation the preferred stock sinking fund. The latter action is necessary before common dividends may be considered.

Crucible Steel, specializing in many of the products essential to national defense, reported a 70 per cent gain in third quarter profits; backlogs have risen substantially; and the consummation of a plan of recapitalization has provided for the liquidation of preferred arrearages. Dividends have been initiated on the company's new 5 per cent preferred stock.

Both Inland Steel and National Steel, with a preponderance of output in the lighter forms of steel, have in the past shown a record of earnings much superior to that of the steel industry as a whole. As a consequence, the current showing of these companies, while excellent, does not record the impressive percentage gains shown by the heavier divisions of the industry. Nine months' earnings of National were equal to $4.92 a share, comparing with $3.31 a share last year, while Inland reported net equal to $6.07 a share against $3.92 a share last year. In the case of both companies, the opportunity for future earnings gains will be somewhat circumscribed by excess profits taxes, reflecting their consistently good past record

and their ability to earn a comparatively high rturn on invested capital.

In the aircraft group, Douglas turned in far and away the most impressive report. Net for the nine months to August 31, last, totaled $7,288,335, or the equivalent of $12.15 a share. In the same period last year the company earned $2,382,159, or $3.97 a share. Of particular interest is the fact that the company's fiscal year ends November 30, and for this reason current earnings will not be subject either to increased corporate or excess profits taxes. Moreover, current earnings will be treated as 1939 results in computing the company's excess profits next year, under the alternative of using average earnings for the years 1936-39. The large earnings this year will have the effect of raising materially the company's tax base.

By contrast, the report of Glenn L. Martin Co. was probably disappointing to many of its stockholders. Earnings in the third quarter were equal to only 48 cents a share, comparing with 50 cents a share in the third quarter of 1939. Actually, however, the company's showing was better than these figures indicate. Net sales this year were up some $2,000,000 and total income was $970,177 as compared with $705,208 a year ago. The company, however, elected to charge against third quarter earnings the full adjustment necessary to provide for the increase in federal income taxes. No provision was made for excess profits taxes.

Earnings of the chemical industry, of which the shares of the leading companies are held in prime investment regard, showed an over-all gain for the nine months of 21.2 per cent. Third quarter results of individual companies, however, took a rather stiff beating at the hands of increased taxes.

Monsanto Chemical reported net equal to only 28 cents a share for the common in the third quarter. In the same period last year, net was equal to 85 cents a share. Had the company's earnings been charged with only the previous 21 per cent normal tax, net in the third quarter this year would have been equal to $1.07 a share. For the nine months, earnings were equal to $2.58 a share, comparing with $2.31 a year ago.

Hercules Powder charged against nine months' earnings provision for taxes totaling some $2,000,000 more than in the same period a year ago. This heavy item, coupled by an interruption in operations at one of the plants as a result of an explosion, held net in the third quarter to 24 cents a share, as compared with 95 cents a year ago.

In every quarter this year sales of du Pont have made

A Cross Section of Third Quarter Reports

	Net Income 3rd Quarter 1939	Net Income 3rd Quarter 1940	Earned Per Share Common and Quarter 1939	Earned Per Share Common and Quarter 1940	Net Income 1st 9 Mos. 1939	Net Income 1st 9 Mos. 1940	Earned Per Share 1st 9 Mos. 1939	Earned Per Share 1st 9 Mos. 1940	Dirs. Paid or Dec'd 1940	Recent Price
Air Reduction	$1,291,816	$1,695,373	.50	.62	$3,524,411	$4,801,469	1.37	1.76	1.75	43
Allis-Chalmers	943,450	1,159,639	.59	.65	2,643,873	3,769,397	1.49	2.12	1.00	38
American Steel Foundries	75,191	413,921	.06	.35	189,533	2,080,446	.16	1.75	1.50	29
Atlas Powder	381,929	382,743	1.19	1.19	831,842	1,127,261	2.31	3.48	4.25	72
Baldwin Locomotive	......	......	....	....	614,624(d)	1,213,880se	.71(d)	1.04	....	18
Bethlehem Steel	5,377,470	12,462,288	1.10	3.63	11,609,456	34,160,745	1.88	9.72	5.00	92
Campbell, Wyant & Cannon	66,372	23,243	.19	.07	27,404	392,476	.08	1.13	1.15	16
Chrysler	6,057,347	211,819	1.39	.05	31,403,118	30,706,094	7.22	7.06	5.50	83
Clark Equipment	203,444	295,000	.72	1.10	703,635	1,133,008	2.55	4.35	2.00	38
Cleveland Graphite Bronze	456,246	209,536	1.41	.65	1,108,203	1,014,457	3.44	3.15	1.20	35
Consolidated Edison	4,554,949	4,239,753	.16	.13	27,619,927	27,416,620	1.67	1.66	2.00	26
Corn Products Ref	2,868,145	1,661,291	.96	.49	7,072,838	6,069,016	2.28	1.89	3.00	46
Douglas Aircraft	985,368*	3,899,478*	1.64	6.50	2,382,159*	7,288,335*	3.97	12.15	5.00	86
Ex-Cell-O Corp	193,685	741,692	.49	1.87	530,514	1,387,727	1.34	3.49	1.65	32
General Foods	4,558,582	3,061,111	.84	.55	12,470,666	10,413,237	2.28	1.89	2.00	37
General Motors	8,627,268	15,597,030	.15	.31	109,619,799	129,172,490	2.39	2.83	3.75	54
Hazel Atlas Glass	1,066,212	721,167	2.45	1.66	2,207,817	1,992,130	5.08	4.59	5.00	99
Houdaille-Hershey "B"	9,035	100,173	.13(d)	.01(d)	773,045	1,572,884	.57	1.59	1.00	14
Inland Steel	2,587,750	4,918,818	1.59	3.02	6,372,810	9,888,484	3.92	6.07	5.00	93
Johns-Manville	1,472,255	1,645,567	1.58	1.80	2,675,999	3,530,544	2.69	3.72	1.50	65
Jones & Laughlin Steel	1,129,001	2,956,647	.17	3.35	281,189	6,232,903	4.86(d)	5.47	....	38
Link Belt	544,957	815,461	.68	1.12	957,436	1,780,740	1.17	2.37	1.00	38
Martin (Glenn L.) Co	546,154	523,493	.50	.48	1,513,778	4,798,981	1.38	4.38	1.00	35
Monsanto Chemical	1,192,219	469,031	.85	.28	3,253,284	3,576,757	2.31	2.58	1.50	84
National Biscuit	3,023,903	2,527,034	.41	.33	8,878,499	7,741,748	1.20	1.02	1.60	18
National Steel	2,903,881	3,827,311	1.32	1.74	7,289,305	10,841,128	3.31	4.92	1.75	71
Phillips Petroleum	1,704,988	2,400,335	.38	.54	5,479,057	8,778,533	1.23	1.97	2.00	38
Pressed Steel Car	206,114(d)	312,389	.53(d)	.46	621,584(d)	1,286,803	1.60(d)	2.03	....	14
Procter & Gamble	6,951,841	4,589,992	1.06	.69	......	......	....	....	2.75	60
Savage Arms	155,185	351,658	.92	2.09	229,378	577,864	1.37	3.44	2.50	38
Square D	257,829	357,872	.75	.79	566,209	1,263,002	1.64	2.82	1.30	34
Standard Brands	1,544,488	2,009,882	.10	.14	5,102,861	6,775,887	.35	.48	.40	7
Standard Oil of Calif	5,523,295	6,360,675	.42	.49	12,640,899	16,730,170	.97	1.28	1.00	20
Texas Gulf Sulphur	1,749,469	2,757,763	.45	.72	5,014,295	7,258,736	1.30	1.89	1.75	36
Union Carbide & Carbon	8,400,326	11,004,553	.92	1.19	19,151,730	30,976,728	2.10	3.34	2.30	75
United Biscuit	226,982	187,504	.45	.36	702,384	622,346	1.40	1.23	1.00	14
United States Steel	10,420,445	33,103,067	.47	3.07	12,390,756	69,418,070	.75(d)	5.80	3.00	76
Victor Chemical	298,801	362,563	.43	.52	735,784	848,408	1.06	1.22	.95	28
Wm. Wrigley, Jr.	2,204,623	1,967,660	1.12	1.00	6,763,632	6,768,314	3.45	3.44	4.00	80
Yellow Truck & Coach	368,276	785,670	.04	.18	1,788,137	3,506,869	.34	.91	....	16
Youngstown Sheet & Tube	765,066	2,842,280	.33	1.57	1,311,259	5,265,492	.41	2.77	.75	44
Westinghouse El. & Mfg	2,731,023	4,746,315	1.02	1.77	9,069,810	14,583,328	3.39	5.46	3.75	109

*—9 mos. to August 31. Se—12 mos. ended September 30. d—Deficit.

a new high record. That earnings, however, have failed to hold the pace set by sales has been wholly the result of higher taxes. The total allowance made for taxes in the first nine months was $30,400,000, or nearly one-third of the company's total income for this period, and equal to about $2 a share more than in the same period last year.

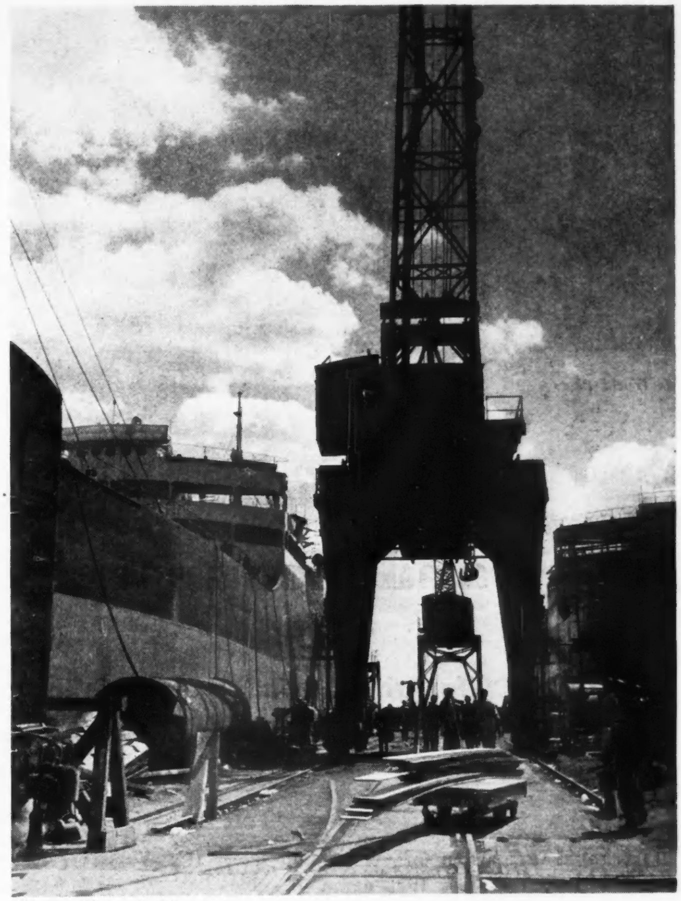
Both Atlas Powder and Union Carbide, on the other hand, were able to make a relatively better showing than the preceding companies. Although earnings reported by Atlas Powder in the third quarter were practically the same as they were a year ago, tax accruals were adjusted this year to make provision for the increased rates in the first six months. Otherwise the company would have shown the equivalent of $1.34 a share, comparing with $1.19 in the third quarter last year. Net for the nine months was equal to $3.48 a share against $2.31 last year. Net for Union Carbide in the third quarter this year was equivalent to $1.19 a share after tax provisions, up 27 cents a share from the level of a year ago. The fourth quarter is normally the company's largest and for all of 1940 earnings may approach $5 a share, which would be the best showing in the company's history.

Reverting to those companies identified with heavy industries, most of the third quarter reports told pretty much the same story. Bookings and shipments rose sharply and backlogs indicated well sustained operations over the coming months.

In the first nine months billings by Westinghouse Electric were up 35 per cent, while bookings in the same period increased 70 per cent over the same months of 1939. On September 30, the company's unfilled orders were 160 per cent higher than a year ago. Allis-Chalmers booked orders in the amount of $78,530,847 in the first nine months, while billings were $66,543,316, comparing with $64,938,367 and $57,014,052, respectively, a year ago, while unfilled orders at the end of last September were some $5,000,000 ahead of last year.

Railroad equipment manufacturers, favored by mounting orders for both new rolling stock and armaments, recorded substantial earnings gains in the first nine months. Like the steel companies, the average manufacturer of railway equipment has a large invested capital, on which the percentage of return has been meager in recent years. As a consequence, there is room for considerable improvement in earnings before excess profits levies will become effective.

Pressed Steel Car in the first nine months supplanted the loss of $621,584 shown a year ago by a profit of $1,286,803, while profits of American Steel Foundries this year totaled $2,080,446, equal to $1.75 a share, comparing with $189,533 or 16 cents a share in the first three quarters a year ago. Baldwin Locomotive for the twelve months ended September 30, last, reported profits of $1,213,880, equal to $1.04 a share. In the same period of 1939, a loss of $614,624 was shown. The company's bookings in September, on a consolidated basis, were in excess of $20,000,000 and the largest in the company's history.



Charles Phelps Cushing

New ships bulk heavily in huge backlog of steel orders and place the steel industry well in the van of defense beneficiaries despite higher taxes.

Leading automobile manufacturers are slated to make heavy contributions to the tax collector. Sales of General Motors in the third quarter were nearly 75 per cent ahead of last year, and earnings were nearly three times the level of a year ago. Of the increase in earnings, however, nearly half was absorbed by an additional allowance for taxes to give effect to the increase in normal rates from 20.9 to 24 per cent. The company made no provision for excess profits taxes, but such an allowance will have to be made in the fourth quarter. The company's chairman, Alfred P. Sloan, Jr., stressed in connection with the third quarter report that stockholders were faced with a period of diminishing returns, as a result of mounting taxes.

Chrysler in the third quarter earned only 5 cents a share and for the nine months the company's profits were equal to only $7.06 a share, comparing with $7.22 a share in the same months last year. The company's profit, before taxes, this year totaled $45,106,094 in the first nine months, against $38,603,118 last year. This year, however, earnings absorbed $14,400,000 in taxes, or just double the amount for the same period in 1939. Taxes this year required nearly 32 per cent of the company's income.

Earnings of Johns-Manville in the third quarter would have set a new high had it not (*Please turn to page 172*)

Wide World Photo

Japanese Ambitions and Economic Limitations

War with the United States Is the Last Thing Nippon Wants and Would Come Only if She Is Pushed Into Sheer Desperation

BY V. L. HOROTH

THE rapid expansion of American trade with Japan after 1933 came to an end in 1937, following the invasion of China. On the export side, the ever tightening exchange restrictions and the changes in the Japanese industrial structure have greatly altered the character of our exports, which declined from $289,000,000 in 1937 to $231,000,000 in 1939. On the import side, the business slump in this country, the boycott of Japanese goods and rising production costs, which made Japanese manufacturers less competitive, contributed to the decline of our imports from Japan from $204,000,000 in 1937 to $161,000,000 in 1939.

The outbreak of the war in Europe has, however, increased Japan's dependence upon our raw materials and war equipment. Trade has been once more stimulated, and during the first eight months of 1940 our exports to Japan rose to $148,000,000, or about $12,000,000 above the corresponding period in 1939. The improvement in our imports from Japan this year was, however, chiefly due to higher silk prices.

In the meantime political relations between the United States and Japan have become increasingly delicate. The repudiation of the Nine Power Treaty, guaranteeing the territorial integrity of China by Japan, was followed in July 1939 by our abrogation of the 1911 Treaty of Commerce and Navigation, providing for the most favored nation treatment. The treaty expired on January 25, 1940.

When last summer Japan increased pressure on China in order to liquidate the three-year-old war, the United States expressed its disapproval by a partial embargo on the exports of machine tools to all countries, complementing previous "moral embargoes" on exports of aircraft and oil refining equipment. Late in July, embargoes on the export of aviation gasoline, iron and steel scrap, and tetraethyl lead followed when it became obvious, after the collapse of the Netherlands and France, that the Tokyo military extremists intended to liquidate the war in China only to be able to use every opportunity to obtain a foothold in Indo-China and possibly even in the Netherlands East Indies.

On September 27 came the announcement of the Berlin-Rome-Tokyo Pact, by terms of which the Axis Powers apparently approved Japan's mission to create a "Greater East Asia" out of the vast Malayasian area extending from Indo-China, Siam and the Philippines in the north through British Malaya and the Dutch East Indies to the shores of the Australian continent. This area offered all that Japan had failed to find in hostile, overcrowded China and in Manchukuo with its rigorous climate: new markets for manufactured products, empty areas for Japanese immigration, a wealth of raw materials and a surplus of foodstuffs.

The British Empire was vitally interested in this area as also was the United States for many of its raw materials. She countered with the opening of the Burma Road and the embargo on copper exports from Canada. The United States granted a loan to China.

The possibility of increased economic pressure by the United States and the British Empire inspired more conservative interests in Japan to urge a more prudent policy, the more so as the war in China was far from a satisfactory conclusion. But the liquidation of several "minor

fronts" in China in recent weeks may indicate that Tokyo is concentrating its military power for the resumption of the southward advance, most likely in synchronization with an attack on the British Empire in the Near East. The question is, should such a move by Tokyo be countered with complete economic sanctions on the part of the United States and the British Empire, how effective would these sanctions be in curbing the Japanese war machine, first economically and then militarily?

Up to 1931 Japan possessed chiefly consumers' goods industries, such as textiles. Utilizing abundant and cheap domestic labor, these industries worked mostly foreign raw materials, such as cotton, into manufactures that were then sold abroad. In general, foreign exchange, representing the value added by manufacture, enabled Japan to pay for raw materials that she retained for her own consumption—petroleum, cotton, steel products and timber—and to increase her standard of living.

The collapse of international trade and the spread of economic nationalism after 1929 placed Japanese consumers' industries at the mercy of the tariff policies of other nations and brought about the realization that the limit of profitable expansion of these industries was about reached. Consequently, to provide employment for a rapidly growing population, and to broaden the country's economic base, Japan set up as her objective to expand the productive capacity of heavy industries (principally steel and chemicals) and to provide herself with territories that would furnish essential raw materials for them.

The conquest of Manchukuo in 1931 provided the starting point. In six years time, Japan created an important producers' goods industry. Steel capacity of Japan proper was nearly quadrupled and production was developed in nearly every branch of machine tool, engine and motor manufacturing. Pig iron output of Manchukuo was increased nearly eight-fold. The number of workers in machine industries in Japan increased from 158,000 in 1931 to 846,000 in 1938 while the capital invested rose nearly four times in the same period. The value of industrial production in heavy and chemical industries, which in 1931 was about Y 1,850,000,000 as contrasted with the output of consumers' or "light" industries of Y 3,135,000,000, increased by 1937 to Y 9,420,000,000, while the light industries advanced to Y 7,068,000,000 (the yen is worth about 23.5 cents at present).

Vital Deficiencies

However, the exploitation of the natural resources of Manchukuo—since it had to be carried entirely with domestic capital—had remained far behind, and the new heavy industries as a whole remained as dependent upon foreign raw materials as were the older consumers' industries. According to the production figures for 1936, Japan's rate of self-sufficiency in iron ores was only 13 per cent, in pig iron 65 per cent, in petroleum 26 per cent, in lead 8 per cent, in copper 62 per cent, in zinc 39 per cent, in tin 29 per cent and in heavy industrial goods (chemicals, raw steel) about 40 per cent.

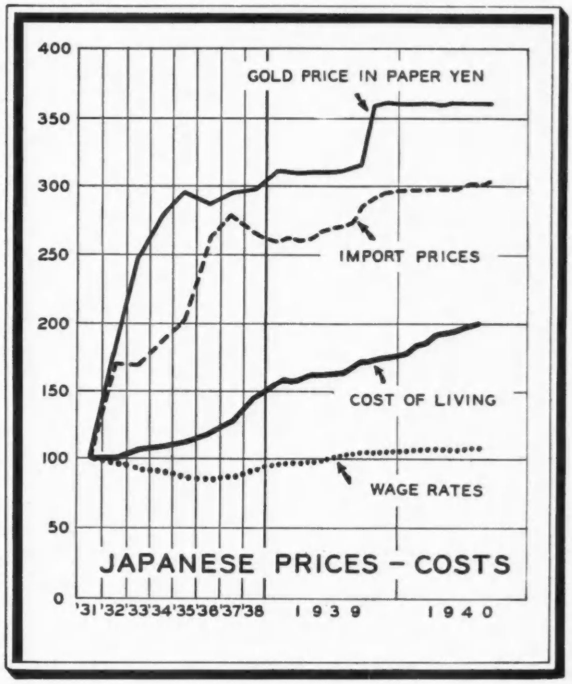
Neither the conquest of North China nor the launching of the five-year plan for the industrial development of Manchukuo in 1937 has remedied the situation sufficiently. Despite the investment of some Y 3,000,000,000 in an eight-year period, 1932-39, Manchukuo has been able to contribute only increased quantities of petroleum and farm products. The rich iron ore and coal deposits of North China yield hardly more than they did before the conquest, while the output of agricultural products—above all cotton, which was to reduce Japanese dependence upon foreign products—has failed, principally because of non-cooperation of Chinese peasants.

The change in the industrial structure of Japan and the war in China have enhanced the position of the United States as the chief supplier of Japanese industrial essentials. America's most important exports, raw cotton, petroleum and machinery, have become most vital for Japan. This dependence has been further increased by the war in Europe which has cut off important supplies of German machinery and has thus bogged down the industrial development in Manchukuo and North China.

Considering only Japan's trade with "foreign currency" countries, the imports from the United States accounted in 1939 for almost 47 per cent of Japanese purchases abroad, while the exports to us were about 37 per cent of all Japanese exports to "foreign currency" markets. Incidentally, trade with the countries outside of the yen-bloc area continues to be heavily unfavorable for Japan, and explains why shipments of Japanese gold to this country had to be so heavy (nearly $650,000,000 in the last three and one-half years).

Limited Vulnerability

Economic sanctions, if applied by the United States alone, would, however, hardly cripple Japan completely. She could replace some of our steel scrap by larger imports of ore and pig iron from Manchukuo, India and British Malaya. With Brazil and India open to her, she could, and she almost did, cover all her cotton import requirements in those two countries. She could probably obtain more petroleum products from the Nether-

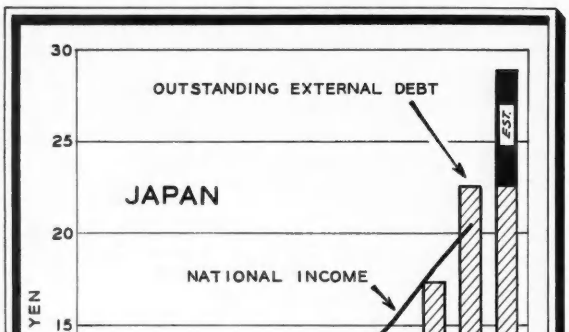


lands East Indies. The sanctions, if applied only by us, would be really effective only in the case of metal working machinery, aircraft and motor vehicles—as neither Germany nor Great Britain is in a position to supply these to Japan at present.

For the economic sanctions to be fully effective, the support of the British Empire and possibly also of the Netherlands East Indies would thus be absolutely necessary. That would cut Japan off from the sources of her manganese, nickel, zinc, copper, petroleum, rubber and wool imports—in fact it would reduce her imports from the "foreign currency" countries to probably not more than 15 to 20 per cent of the 1939 total.

In summarizing, it may be said that the creation of important heavy (producers' goods) industry and the modernization of defense and other industries at the cost of nearly Y20,000,000,000 since 1931 have broadened and strengthened in many respects the Japanese national economy and made the Japanese Army and Navy a much more formidable opponent. But such an industrial expansion also subjected the Japanese national economy to a great strain, even prior to the outbreak of the war in China, and necessitated government control of production, prices, and foreign trade at the expense of consumers' goods industries and the standard of living of the population.

When the war broke out in China, the heavy industries in Japan were switched almost entirely to the production of war equipment, and consequently could not, by exporting, acquire foreign exchange necessary for the purchase of raw materials on which they still remained dependent to a great degree. The necessary foreign exchange had to come from the "earnings" of consumers' goods industries, with the result that restrictions on domestic consumption became very severe—for example, the use of imported cotton in home consumption was forbidden altogether. The imports were put under an extensive system of controls, often haphazardly applied and constantly revised and experimented with. Eventually so much foreign exchange had to be syphoned into purchases of raw materials for war industries that not enough was available to keep the consumers' goods industries fully employed. Among others, the textile industry had to curtail operations and export trade in textiles has dwindled. The scarcity of goods became aggravated by the fact that prices in Manchukuo and North China—because of heavy army expenditures—have advanced faster than the prices in Japan proper. This price difference stimulated the outflow of goods from Japan and necessitated the institution of stern measures of control.



While the output of consumers' goods has been declining (including domestic farm products) the purchasing power generated by the huge army expenditures in China has been expanding. At about 4,500,000,000 yen, the Chinese war costs Japan annually about three times as much as the Russo-Japanese War did in 1904, not to mention the burden of financial aid to Manchukuo and China in connection with their economic reconstruction. Well over one-half of the present national income of Japan, about Yen 20,000,000,000, is being expended by the Government; over two-thirds of these expenditures go to pay for the Army and Navy. In terms of our own economy this would be, on the basis of national income, as if the United States were spending about $27,000,000,000 for national defense out of a budget of about $40,000,000,000.

Strain on Finances

Since the Japanese tax base is very narrow—84 per cent of families in Japan have an income less than $400 a year—the huge expenditures have to be financed to a large extent by borrowing from commercial banks. Such borrowing interferes with private borrowing for commercial purposes and runs up deposits.

Despite unending restrictions, rationing and price controlling, the inflation that was evident in a mild form soon after the war in China started has been gaining momentum in the last few months. As will be seen from the accompanying chart, the prices of imported goods have risen nearly 200 per cent and the cost of living about 100 per cent since 1931. To this it may be added that the notes in circulation increased about 300 per cent in the same period. On the other hand, the bulk of wage rates remains hardly above the 1931 level. Although there is more employment and longer working hours are in effect, it is nevertheless the Japanese wage earner and farmer who obviously bear the brunt of it all.

The strain on the Japanese national economy has been increasing gradually through the entire decade, and no doubt the people have become somewhat adjusted to it. This makes it difficult to judge how much more strain, as a result of economic sanctions, Japanese national economy could stand. Obviously, the inflationary tendencies, now becoming less and less controllable, are weakening the country more than is generally realized. The only possible conclusion is that Japan must seek to avoid war with any major power—including the United States—at all cost. Complete economic sanctions might push her to war in sheer desperation but at the same time guarantee that she would lose the final verdict.

Heavy Construction Headed for New Peaks

Charles Phelps Cushing Photo.

Varying Benefits to Makers of Building Materials

BY HENRY D. STEINMETZ

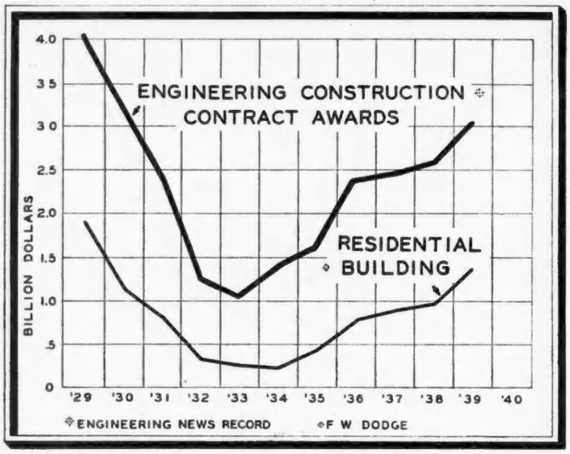
WHETHER our national defense program began with the first multi-billion dollar appropriation of Congress last spring, whether it began with the placing of the first extraordinary munitions contracts this summer, or whether it has yet to begin at all is a moot and largely political question. On one score, however, there is little room for argument: whenever the program began or will begin, it now casts its huge shadow clearly before it, and nowhere more unmistakably than in the field of heavy construction.

After our entrance into the last war, widely divergent trends developed between heavy construction and other building activity. The latter turned downward in the summer of 1917 and, before the reversal of early 1919, declined about 34 per cent. The former, on the other hand, rose sharply from mid-1917 on; though engineering construction awards, as compiled by the *Engineering News-Record*, were somewhat less for 1917 as a whole than for the preceding year, they advanced in 1918 to new record levels. With some modification, a repetition of this pattern now seems likely.

Heavy construction today falls naturally into four general classifications: (1) public defense construction, (2) other public construction, (3) private industrial defense construction, (4) other private industrial construction. Let us consider these in order.

Beginning with a $3,000,000,000 appropriation in June of this year, Congress has thus far voted about $11,500,000,000 for defense. Of this sum, approximately $1,275,000,000 is earmarked for construction. In addition, some $720,000,000 will be spent by agencies outside the War and Navy Departments (C A B, R F C, U S H A, W P A, etc.), bringing the total to nearly $2,000,000,000. These funds will go into such projects as naval yards and establishments, air bases, Army barracks and camps, defense worker housing and munitions plants. All of this, of course, is rush work. Though some of it will necessarily be spread over a considerable period of time, much if not most will be pushed as rapidly as possible since the training of a civilian army cannot go forward without camp facilities and arms cannot be turned out in quantity until manufacturing capacity is available.

Defense projects will be pretty well diversified geographically. Though most of the training camps now provided for will be in the South, important expenditures for new camps or expansion of existing ones are being made in Washington, Michigan, New Jersey, Pennsylvania and Massachusetts. Agency plants for the Navy are to be fairly well distributed among Atlantic, Pacific and Gulf Coast areas (with some inland), the more important being those of Bethlehem Steel, Newport News Shipbuilding, Federal Shipbuilding, Carnegie-Illinois and Consolidated Steel. Agency plants for the Army will be in the industrial East and Middle West, and will be operated by such concerns as Atlas Powder, Hercules



Powder, du Pont, Chrysler, Packard and Humble Oil.

Turning from the first to the second classification of heavy construction, we find that while public defense works are expanding rapidly, other public works have been sharply curtailed. The building of schools, post offices, town halls and the like has dropped off sharply in 1940, the decline having gotten under way well before the fall of France and the necessity of our tremendous armament program were foreseen. It is altogether likely, moreover, that this sort of work will continue slack, but with works of a defense value such as water and sewage lines, power projects and highways to service new industrial and military centers more than taking up the slack.

The last two classifications, defense and non-defense construction by private industry, are difficult to segregate statistically. There is little doubt, however, but that it is the former that is accounting for much of the substantial gains in industrial building. It is worth noting, too, that although industrial building awards for the first nine months of 1940 amounted to $350,000,000, little less than double the $170,000,000 of a year earlier, this year's figure does not include some $150,000,000 of Government financed munitions plants (such as Chrysler's tank plant and du Pont's powder plant) that are classed as public works. Of the privately financed defense construction now under way, the most important projects are those of the aircraft industry. In the past few weeks, contracts ranging from $500,000 to $11,000,000 have been let by Boeing, United Aircraft, Bell, Vultee, the Allison Division of General Motors and the Airplane Engine Division of Ford Motor Co. And this is probably only a beginning. Moreover, industries other than aircraft (steel, power, etc.) are likely candidates for plant expansion before the defense program is completed.

In some lines, of course, the excess profits tax will tend to discourage expansion. There are, however, two mitigating factors in this connection. First, it is doubtful if the law will be allowed to stand in its present form through the next session of Congress. Second, its provision for five year amortization of plants erected in order to handle defense contracts will be a risk reducing device for some industrial builders. All in all, the new tax law is more hindrance than help in the stimulation of heavy construction by private industry, but probably not enough so to detract seriously from the prospect of the developing boom.

What does all this mean for the building materials companies? Well, to begin with, it is apparent that all do not stand to benefit in anything like the same degree. Among the most important beneficiaries of all will be an industry not commonly classified under the building group—i.e., steel. Passing over the latter to those more properly comprising the building materials industry, we find the cement makers in a vastly improved position as compared with earlier in the year. Shipments are now being maintained at a good level and, for the first time in many years, a number of producers plan to continue operations through the winter in order to meet requirements of the defense program. Prices remain at about 1938 levels, but the larger volume is lifting earnings de-

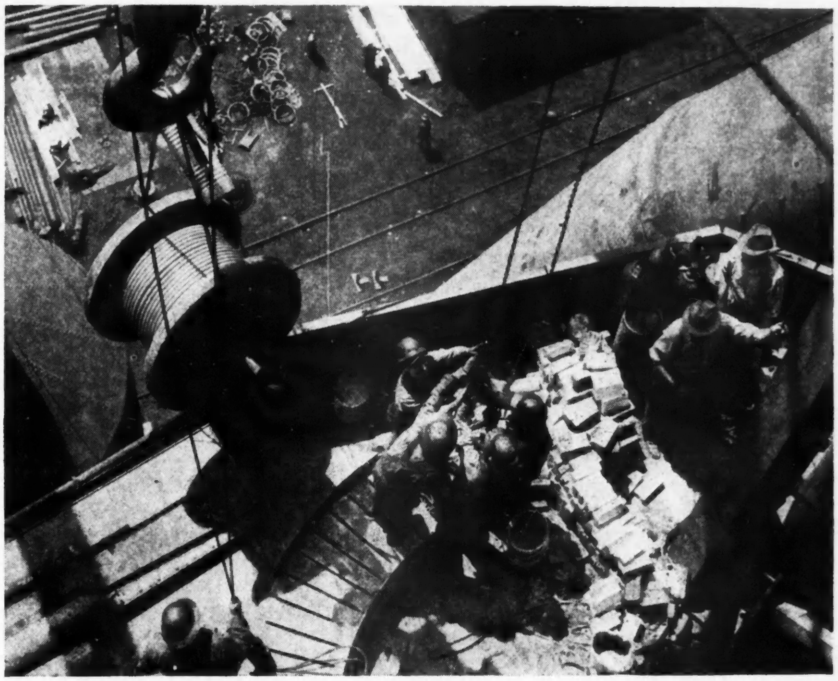
15 Leaders in Building Equipment

	Capitalization (000 omitted) Bonds	Pfd.	Common	Earned per Common Share 1939	'9 mos. 1940	Divds. to Date 1940	Price Range 1940	Recent Market Price
Alpha Portland Cement	None	None	638	$1.17	$1.22(f)	1.00	17½—11	17½
American Radiator & S. S.	$7,500	43	10,043	0.34	0.35	.15	10⅝— 4¾	7⅝
Certain-teed Products	8,550	73	625	(d)0.14	....	....	8⅜— 3½	5
Crane Company	10,692	193	2,349	1.55	....	....	24¼—13	22¼
Devoe & Reynolds	1,700	9	122	2.08(a)	....	....	23¼—12⅛	15¾
Flintkote Co.	2,250	None	678	2.11	1.74	....	21⅝—10⅛	17
Holland Furnace	None	12	450	3.11	2.45	1.50	35¼—19	31
Long Bell Lumber	1,482	None	594	def.	def.	....	4¼— 2	3½
Minn. Honeywell	None	30	622	3.27	2.37	2.00	54 —33¼	50
National Gypsum	4,715	60	1,261	0.94	0.68	....	12¼— 5½	8½
Otis Elevator	None	65	2,000	1.18	1.13	.60	18⅜—11⅛	17
Pittsburgh Plate Glass	None	None	2,177	4.94	....	3.00	104 —65	91
Sherwin-Williams	None	127	639	5.96(b)	6.57(b)	2.25	100 —62½	80½
Thompson-Starrett	None	64	585	(d)0.02(c)	0.24(e)	....	2½— 1	1¼
U. S. Gypsum	None	78	1,195	5.62	4.05	2.00	89 —50	69

(a)—Year ended Nov. 30. (b)—Year ended August 31. (c)—Year ended April 30, 1940. (d)—Deficit. (e)—Three months ended July 25. (f)—Twelve months ended September 30.

spite slightly higher fuel costs and taxes. A further favorable factor, particularly for such concerns as Alpha Portland, Lehigh Portland and Penn-Dixie for whom the eastern seaboard is an important marketing area, is the virtual cessation of low-priced competition from abroad. Generally speaking, second half profits of the cement makers should show a substantial gain over first half figures.

Business is also looking up for the flat glass manufacturers. Output of plate and window glass to date in 1940 has increased by about one-third over the same period of last year, though it is possible that the final months of the year may see a moderate letdown. Nevertheless, in the light of prevailing conditions in the automobile industry, a prospective widening of demand from heavy construction, and a stable cost-price situation, the trend of earnings should be upward.



Charles Phelps Cushing

Construction nears completion on new blast furnace for a steel mill

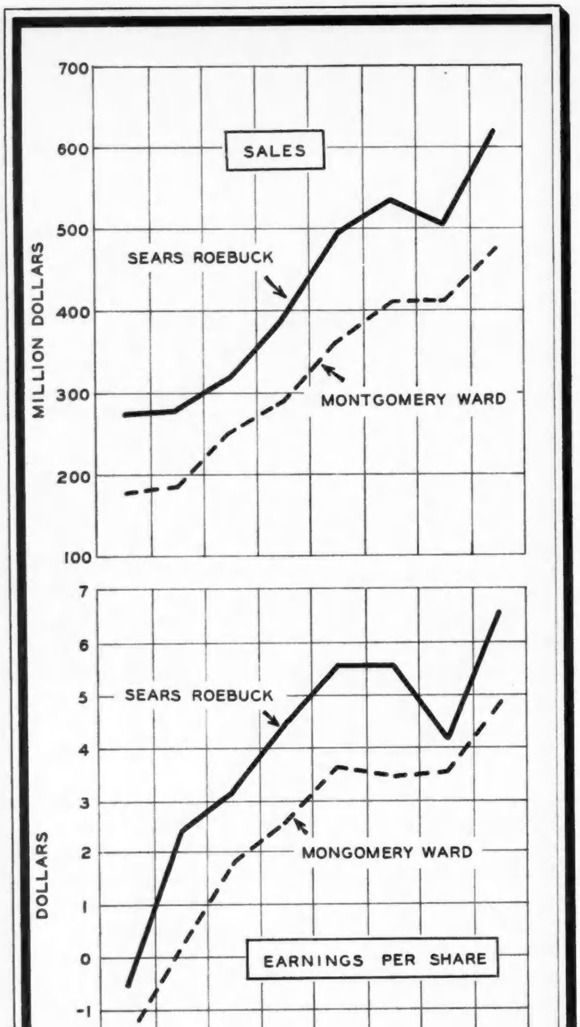
Sales of gypsum and gypsum products continue to gain and there is every indication that this trend will be continued. However, since every effort is being made to hold down prices, an eye should be kept on labor costs which might bring about a profit squeeze. Taxes are also a factor, increased provision for this item being wholly responsible for holding National Gypsum's third quarter earnings to the level of a year earlier.

One of the first effects of the defense program on the lumber industry was a rise in prices which the N D A C was quick to crack down on. An initial Army order for 600,000,000 board feet brought an immediate jump in quotations, but it now appears that these have been brought under closer control. In any event, volume prospects are better than they have been in many a moon. Shipments have been running about 5 per cent ahead of a year ago and with the defense program calling for an approximate 4 to 5 billion board feet of lumber over the next twelve months, another 10 or 15 per cent advance in shipments seems likely. One fly in the ointment, however, is a disrupting CIO-AF of L squabble over the organization of northwestern logging camps.

Paint sales have been rising moderately and the outlook here is for continued gains. Costs are being held in line through substitution of special linseed and other oils for imported quick-drying oils that have risen in price. A banner year is being chalked up by manufacturers of mechanical heating equipment and it is expected that sales of both oil burners and coal stokers will attain record levels for the whole of 1940. On the other hand, sales of air-conditioning equipment have been disappointing, due in large part to unseasonable weather last summer, but considerable business will be derived in connection with new factories now going up and others planned for next year.

Among the individual companies in the building group, immediate prospects are mixed. Perhaps the best situated from an investment standpoint are Holland Furnace, Johns Manville, U. S. Gypsum, Masonite and Otis Elevator. The first named concern continues its favorable earnings trend and it would not be surprising to see the present 50 cent quarterly dividend supplemented by an extra. Johns-Manville's broad line of some 1,300 items for the building trades insures it ample participation in expanding construction; an important recent product addition is an asbestos-cement pipe for heavy engineering use. As the country's leading maker of gypsum-base products, USG's place in the improving construction picture is assured. The common shares offer an attractive yield together with reasonable appreciation prospects. Masonite, a principal manufacturer of hardboard, insulating board and lath from sawmill waste and pulpwood, qualifies as a growth stock by virtue of the aggressive research activities carried out by the management and the new products that have been introduced from time to time. Otis' 1940 earnings should top those of 1939 and the company stands to share in the defense construction work of 1941.

Turning again to the heavy construction picture in general, it is well to note that the building industry is as sensitive as any other to the trend of material and labor costs. It was the sharp rise in the latter that brought a well established uptrend in construction activity to a sudden halt in 1937 even before the general business depression that began in that year became apparent. The rise in costs that has been going forward in recent months, therefore is not to be (*Please turn to page* 177)



Montgomery Ward

A critical analysis of two

BY J. C.

When two large companies, operating with practically the same equipment and in the same fields, show a wide disparity in the market value of their respective stocks there must be some good and sufficient reason, and it is the purpose of this article to set forth the numerous factors involved in an attempt to rationalize the fact. Both companies are engaged in retail trade on a nationwide scale through the media of mail-order catalogues and retail stores. Both companies have large department stores located in the larger cities of the country or in their immediate vicinity and both have smaller stores situated in communities of lesser size. That Montgomery Ward chooses to operate more extensively in the Middle West while Sears prefers more highly industrialized areas for promotion may or may not have some bearing upon probable future sales growth but certainly not sufficient to warrant any two-to-one selling price of the respective companies' shares.

In evaluating any merchandising company sales volume and trend should be among the first factors for consideration. Last year, Sears' net sales totalled $617.4 million and Montgomery Ward sales reached $474.9 million or about 30 per cent lower than those of its principal competitor. In both instances these were the best net sales ever reported. Sears' sales for the period were better than 22 per cent higher than those of a year before but Montgomery Ward's sales were more than 14 per cent higher than in 1938 in which year Montgomery Ward sales were only about 21 per cent below those of Sears. What happened in 1939 was that Sears recovered some of the ground lost in the previous year although there is no indication that the difference will be sharply widened. During the first half of this year Sears' sales have been running about 12 per cent ahead of a year ago while Montgomery Ward's sales have been somewhat better than 10 per cent higher. Such variations are characteristic of the two companies and should not fully account for the variation in market values. Both companies should continue their gains in sales throughout the balance of the year and both should report new high figures.

Volume of sales would mean little if profit margins were inadequate and the inability of one to merchandise as successfully as the other might be some basis for a difference in valuation of the companies' shares. But this is not the case with Sears Roebuck and Montgomery

vs. Sears Roebuck

leading merchandisers

CLIFFORD

Ward. In 1939 Sears' ratio of net income to net sales was approximately 6 per cent while Montgomery Ward's was only slightly lower at 5.7 per cent. What is more significant, however, is that Montgomery Ward's profit margin was the best in any year since the end of the depression while Sears did considerably better in 1937. Neither will do quite as well as far as profit margins are concerned this year because of higher taxes about which more will be said later on. Whatever the cause may be, it does not seem that merchandising ability of the individual managements enters into the valuation of the companies' shares for both managements appear to be capable of operating their business in a highly acceptable manner.

In both cases, mail order business involves the maintenance of sizable inventories. At the close of their respective fiscal years Sears Roebuck had approximately $112.6 million in inventories on hand while Montgomery Ward's stocks of merchandise were reported at $96.3 million. Sears' ratio of sales to inventories was 5.5 to 1 while Montgomery Ward's was 4.9 to 1. Both figures indicate a satistactory turn-over of inventories. It is in the inventory situation that perhaps the first clue is obtained as to why investors are apparently willing to pay 50 per cent more for Sears' stock than Montgomery Ward's.

The realization of better business and the expectation of even greater sales to come warrants the expansion of inventories. This is already apparent in Montgomery Ward's mid-year figures which indicated an increase of $1.2 million since the first of February. Sears very probably also increased inventories although the extent of the expansion is not reported. In financing such expansion both companies—for the first time in this study—pursue a widely divergent policy. Sears, in order to increase its store of goods, has had recourse to the banks in order to take advantage of the very low interest rates obtainable by borrowers of high credit standing. Last year's statement showed that Sears had already borrowed $6 million on that basis while Montgomery Ward was still free of bank debt. Montgomery Ward is also in need of working capital—a fact officially admitted by the company—but Montgomery Ward's management has chosen to attempt to raise the necessary funds through the issuance of additional common stock. The new issue is being held in abeyance but the proposed offering price of $40 a share is known and quite naturally places a ceiling on the market value of the outstanding stock at least until the offering is out of the way. The method of improving working capital position by the sale of capital stock is economical for it entails no fixed charges or amortization but it does dilute the earning power of the common shares. On the other hand, borrowing funds to expand inventories permits increased earnings available for the common stock in the ratio of the difference between the cost of the money borrowed and the ability to employ the funds so obtained at a profit. Undeniably, capitalizing funds obtained for working capital is the least hazardous over the longer term but borrowed money offers the better earnings leverage for the equity shares in times of rising business.

The total invested capital of both companies is of sufficiently similar size so that in this instance the variation of common share market price is not warranted. Sears earned 13.8 per cent on its invested capital of about $271.7 million as compared with 12.8 per cent on Montgomery Ward's $211.1 million. Sears did somewhat better than Montgomery Ward but both earned well above the 8 per cent permitted by the new tax laws before the incurrence of excess profits taxes. The total assets of Sears and Montgomery Ward are somewhat farther apart—$323.7 million for Sears and $251.8 million for Montgomery Ward at the year end—but the proportion is far less than two-to-one. Montgomery Ward fares somewhat better in a comparison of current assets with quick assets of $189.6 million being only slightly lower than Sears' $209.8 million. Montgomery Ward's current asset ratio (*Please turn to page* 175)

Courtesy Sears, Roebuck & Co.

Final operation in the shipping of mail order packages.

Dividends in Danger on Tobacco Stocks?

Due to Higher Taxes, Major Sales Gains Are Required to Hold Earning Power at Present Levels

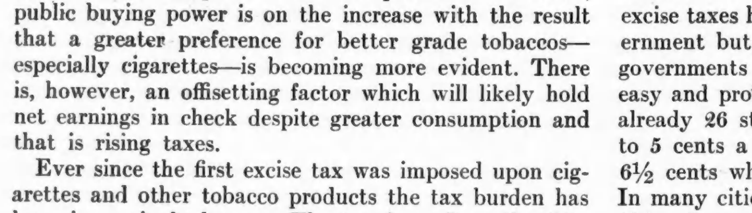
BY JESSE J. HIPPLE

THE tobacco industry today is favored by the relatively low costs of tobacco and a continued secular growth in consumption of tobacco products. Moreover, public buying power is on the increase with the result that a greater preference for better grade tobaccos—especially cigarettes—is becoming more evident. There is, however, an offsetting factor which will likely hold net earnings in check despite greater consumption and that is rising taxes.

Ever since the first excise tax was imposed upon cigarettes and other tobacco products the tax burden has been increasingly heavy. The tax is easily collectible, is based upon a virtual public necessity and can be depended upon to furnish the collector with a fairly constant stream of revenue. Until comparatively recently, excise taxes have been the perquisite of the Federal government but in recent years state and even municipal governments have been unable to forego this apparently easy and prolific source of revenue with the result that already 26 states are collecting anywhere from 1 cent to 5 cents a package on cigarettes, in addition to the 6½ cents which now goes to the Federal government. In many cities a retail sales tax not only places an additional tax on tobacco itself but also exacts a tax upon the taxes paid to the government and the state for the sales tax is based upon the total amount of the transaction.

There is not likely to be any surcease in tobacco taxes although there is every possibility that taxes will be further increased whenever it may seem that current taxes have been accepted by the public and digested. What the tobacco taxes mean to the Federal government may be seen from the fact that in the last 20 years tobacco consumers have paid into the Federal treasury approximately $8,160,000,000. A glance at the broad divisions of the tobacco industry and their proportionate contributions to taxes is even more startling. In 1920, for instance, the tobacco industry contributed $296,000,000 to Federal coffers of which 51 per cent was obtained from cigarette sales and the remainder from other tobacco products. In the 1939 fiscal year cigarettes accounted for nearly 87 per cent of the $580,000,000

CIGARETTE CONSUMPTION



collected. A more graphic illustration of the disproportionate increases in cigarette taxes is contained in tobacco consumption figures which show that per capita consumption of cigarette tobacco rose 126 per cent during the 20-year period while taxes imposed upon cigarettes rose 226 per cent. At the same rate of increase cigarette taxes might be expected again to double within the next 10 or more years although long before that time the law of diminishing return will probably have served to reduce the actual government receipts from cigarette sources.

We have seen that the consumption of cigarettes—as measured by the weight of tobacco involved—has risen 126 per cent in the past 20 years but this does not mean that the gain has been constant from year to year. The greatest impetus to cigarette consumption came in the early part of the last decade when smoking by women became socially acceptable and thus practically doubled the potential market for cigarettes. Now that the single standard for cigarette smoking is a foregone conclusion, further gains must come only from normal expansion of population. Although each year since 1933 has seen new records in the quantity of cigarettes consumed, the gains over previous years have been becoming smaller with the result that last year's gain was but 5.3 per cent over 1938 and this year's gain will be somewhat less than that amount. Over the longer term it is probable that a saturation point in cigarette consumption will be reached after which no more gains will be registered. However, this time is still a fairly long way off and need give the average tobacco stockholder no concern for the present.

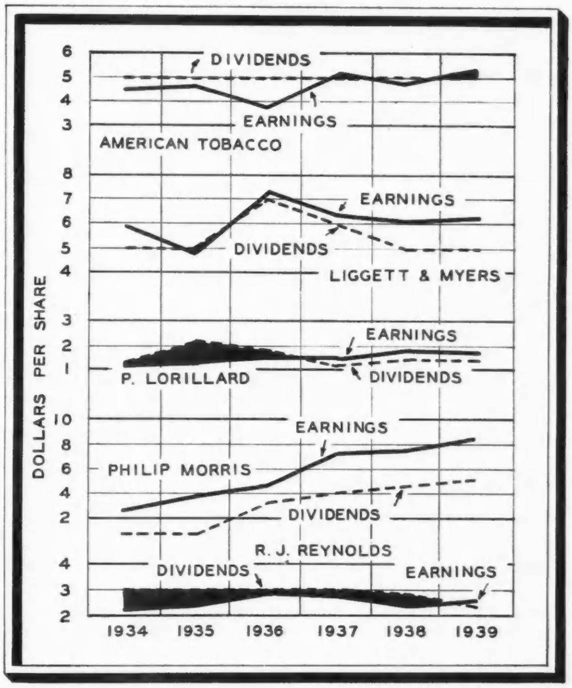
What is of more importance over the longer term is the price of leaf tobacco and consumer resistance to sharply higher selling prices of the finished products. At the present time the cigarette manufacturers have worked off most of their high cost tobacco acquired in 1937 and are now using lower cost materials. That tobacco companies attempt to average tobacco costs by applying the costs of leaf tobacco for the past three years in arriving at current tobacco costs is well known. The tobacco that is now being used in cigarettes costs approximately $0.72 per 1,000 cigarettes as compared with $0.80 a year ago. Next year's tobacco costs will be moderately lower and thus afford a wider profit margin before taxes although the effects will probably not be fully apparent in net income available for dividends. Labor costs are relatively small and account for less than 3 per cent of the factory value of all cigarettes manufactured. Thus, any increase in individual wages due to the workings of the wages and hours laws will have but little effect upon the cigarette makers' profit.

There is one expense, however, that is not amenable to reduction without incurring the penalty of loss of public preference and that is advertising expenditures. Reynolds Tobacco Co. tried the experiment back in 1932 and cigarette sales (Camels) dropped from 33 billion units in 1931 to 24.6 billion in the year of curtailed advertising. In the same period, "Lucky Strike" advertising was held at relatively high levels with the result that sales declined only about 7.4 billion units to 37 billion and the American Tobacco Company continued in first place. When advertising was resumed "Camels" once more rose in public favor until in 1937 "Camels" reached first place in consumer preference. Since that time the volume of "Camel" sales has been declining although up until the close of last year there were more "Camels" sold than any other brand.

Consumer Demand Follows Advertising

Reynolds' position as the leading maker of cigarettes has been closely contested by the other manufacturers. Sales of "Lucky Strikes" reached their low point in 1935 but have since been gaining ground. Last year "Lucky Strike" sales were but .5 billion lower than "Camels" and were advancing. This year it is probable that "Luckies" will again regain the lead although Liggett & Myers' "Chesterfields" as well as Reynolds' "Camels" will not be far behind. With consumer brand preference apparently being closely influenced by the volume and quality of the advertising done by each cigarette maker it is probable that advertising costs will remain high. New tax schedules give an added impetus to the expenditure of funds for advertising.

The decision to save money at the expense of advertising expenditures taught the tobacco industry one lesson about consumer reaction and the ill-advised price advance of 1931 taught another. A small price war developed in 1928 which reduced the base price of 1,000 cigarettes from $6.40—maintained from October, 1922, to $6 on April 21, 1928. The price was subsequently raised to the old $6.40 figure in October of 1929 just about the time that the stock market hit its first skid. No public resentment followed the 1929 price rise but when the price was advanced to $6.85, June, 1931, cigarette consumption dropped off by nearly 10 billion units and the trend was not reversed until 1933 when the lowest price of $5.50 per 1,000 was reached. Since that time cigarette prices have recovered substantially but they are not as yet as high as (*Please turn to page* 176)



American Oils Abroad

Investments in Europe and the East Are Large in Dollars but Small in Percentage of Those in the Western Hemisphere

BY WARD GATES

THE *coup d'etat* which cast Rumania into Nazi hands and the subsequent Italian aerial bombardment of the American controlled island of Bahrein were made almost solely either to acquire or to hamper adequate supplies of crude petroleum to interested parties and as such may be called the initial steps in the battle for oil. Oil, it hardly need be said, has come to be one of the most important munitions of war. As the earliest and most progressive producers of crude and refined petroleum it is not surprising that American petroleum companies have gone far afield in their search for additional reserves of crude oil. This search has been carried on in the far corners of the earth with the result that whatever may occur in nearly any oil field of the world is bound to have some effect upon American investments and earnings.

In order more fully to appreciate the situation and to gain a clearer conception of what the spreading of the war to the Near East and the Orient may mean to American oil companies it would first be well to look at the proportion of the world's total annual supply of oil that is produced from various sections. Of course, the mainland of the United States is by far the richest in petroleum reserves and production. Last year, for instance, the United States produced approximately 1,264,256,000 barrels of all kinds of crude petroleum, or 60 per cent of the world's total output of about 2,075,500,000 barrels. Other countries of the Western Hemi-

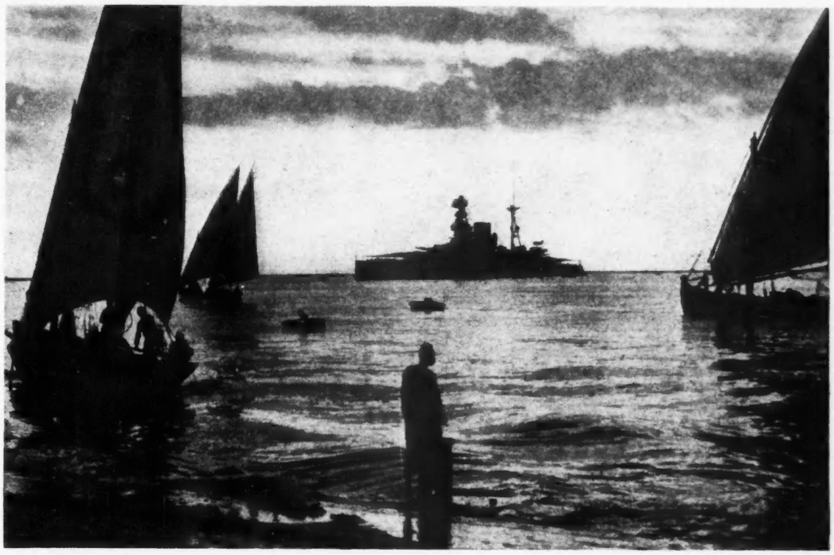
Principal American oil companies operating abroad and their fields of interest

	Venezuela	Colombia	Argentina	Peru	Canada	Mexico	Iran	Irak	East Indies	Rumania	Bahrein	Burma
Standard Oil of N. J. Net foreign investments approx. $572 million	●	●	●	●	●	●	○	●	●	●	○	●
Socony-Vacuum Oil Net foreign investments approx. $206 million	●	●	○	○	○	●	○	●	●	●	○	●
Texas Corp. Net foreign investment approx. $127 million	○	●	○	○	○	○	○	●	●	○	●	○
Gulf Oil Net foreign investment approx. $100 million	●	○	○	○	○	●	○	●	●	○	○	○
Standard Oil of Cal. Net foreign investment approx. $42 million	●	●	○	○	●	●	○	○	●	○	●	●
Yearly production capacity of field in millions of barrels	**220**	**25**	**20**	**15**	**10**	**50**	**80**	**30**	**65**	**50**	**15**	**10**
Nationality of controlling interests	Amer.	Amer.	Amer.	Amer.	British Amer.	Amer.	British	Amer. British French	Dutch British Amer.	Amer. German	Amer.	British

● Operates in these countries directly or indirectly through subsidiaries. ○ Little or no interests.

sphere preduced about 326,558,-000 barrels, or about 15 per cent of the entire world output, thus accounting for about 75 per cent of the total amount of crude petroleum produced from all sources last year.

Of the remainder—about 463,-442,000 barrels—almost half, or about 216,727,000 barrels, came from Russian wells which are state-owned and are therefore no concern of the American oil companies. What we are concerned with then is approximately 12 per cent of the world's total oil supply in which American oil companies have approximately a half interest; sharing their holdings in most instances with British or Dutch owners.



Wide World Photo

Among the many vital interests protected by the British Navy are the great oil fields of the Near East, in which American Capital also has a stake.

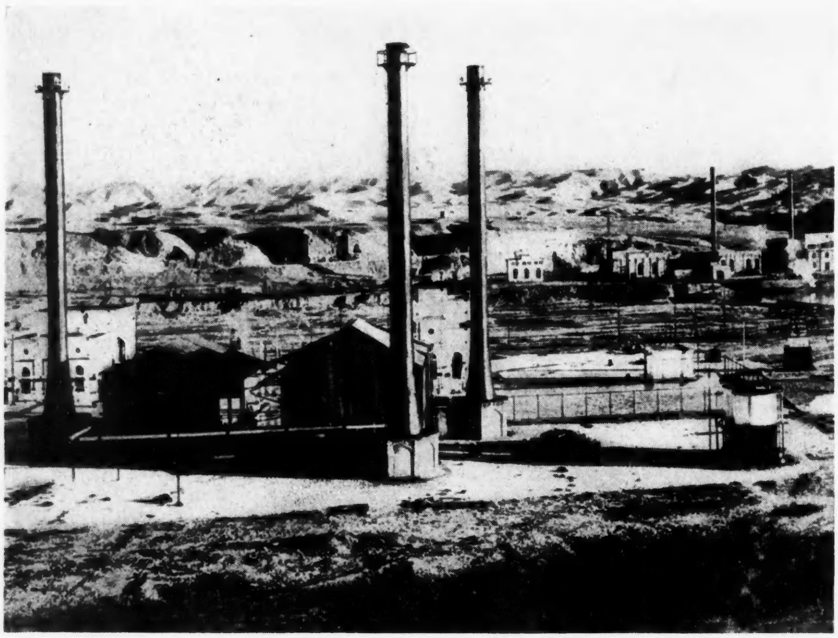
Since Rumanian oil was the nearest to the Axis powers in Europe and was not quite as strongly held as the Russian Baku oil fields which the Axis has also coveted, Germany took the Rumanian oil fields over by the simple expedient of fomenting a bloodless—for the Balkans—revolution which placed a pro-Nazi government in power and a German army in Rumania to guard the oil fields. The Rumanian fields are sixth in size in the world, but their production capacity of approximately 50,000,000 barrels of crude oil per annum makes them relatively small as far as output goes when compared even with our own state of Texas. In the Rumanian fields the predominating financial interests were British and Dutch, although there was a smaller amount of American investment. The Germans have taken over the British and Dutch interests, but as yet American holdings are undisturbed. Standard Oil of New Jersey is perhaps the largest American company operating in Rumania, but the investment represented in Rumanian oil producing and refining facilities is relatively small when compared with the company's interests elsewhere. Unless the United States definitely goes to war with the Axis powers, the Rumanian situation is fairly safe, although it will not be possible for New Jersey to take out any earnings. Some method might be worked out whereby these properties might be sold to the Germans later on, unless the field has been irreparably damaged by the recent earthquake.

Apart from Rumania and Russia, there is little crude oil produced in Europe. The major American oil companies do have, however, a considerable investment in refining and marketing facilities in Europe. Holdings in Europe of the four largest American oil companies—Standard Oil of N. J., Socony-Vacuum, Texas Corp. and Gulf Oil—are carried on the respective companies' books at approximately $240,000,000, as compared with their total foreign holdings—including South American interests—valued at about $1,100,000,000. A large part of these European properties have been damaged or destroyed. We know, for instance, that a large American refinery in France was destroyed by order of the French Government prior to the retreat to the south, and since that time much has probably been done in the matter of destruction or incapacitation if only by reputed air attacks by the belligerents on various refining centers throughout Europe. Standard Oil of N. J. has by far the largest investment in European facilities—reported to be approximately $165,000,000—and has thus perhaps suffered the largest immediate loss. Socony-Vacuum's European stake is only about 23 per cent of the size of New Jersey's holdings, while those of Texas are about 30 per cent smaller than Socony's. Gulf Oil has the smallest representation on the Continent.

Near East Fields Next?

The question of what is to be the fate of these approximately one-quarter billion dollars of investments in Europe is but natural. The answer is rather vague for there is no way in which the actual damage incurred can be estimated and most of the oil companies do not report exactly how much income accrues from each of their individual foreign holdings. Always supposing that this country stays out of the war, however, it is not likely that the owners of these properties will have to write them off as a total loss for there is almost bound to be some salvage value after the war is over and moreover, there will probably be some chance for the companies to be indemnified—at least in part—for the losses incurred through military action or necessity.

Capture of control of the Rumanian oil fields by the Nazis gives them but fractionally more than 2 per cent of the entire world output as compared with military needs of many times that amount. Of course, it is likely that Russia is supplying some of the needed crude oil, but then Russia also has the need for large supplies and cannot spare too much for the Axis. The next nearest supply of adequate quantities of crude oil is in the Near East and it is possible that the present Balkan drive is toward the fairly rich oil fields of Iran and Irak



Wide World Photo

Tombi pumping station in the Anglo-Persian oil fields.

is perhaps more a lack of opportunity rather than desire that has withheld their hands for both sides are known to covet these prolific fields which either group might logically assume to lie within their "sphere of influence." Here again, American interests would not be disturbed in the event that these properties were to come under Nazi or Russian domination unless this nation would also join the war as a belligerent. In the meantime there is no probability that the respective American owners will be forced to write off their investments in these particular fields nor is it likely that income from their operations will cease to be available to them.

On the same Persian Gulf lies Bahrein Island and the neighboring mainland Saudi-Arabia whose vast oil fields are jointly controlled by Standard Oil of California and Texas Corp. through 50-50 ownership of Bahrein Petroleum Ltd. and California Arabian Standard Oil Co. The Bahrein field has not been as fortunate in the matter of being free from enemy attack as Iran and Irak fields for only several weeks ago a flight of Italian bombers dropped a load of high explosives on the wholly owned American oil field ostensibly because this field constituted a potential source of oil supply for Great Britain. The reason seems relatively far-fetched for the Italians had to make a 2,800-mile round trip through hostile territory to complete the task rather than to attack many nearer objectives having greater potentialities as supply sources for the British. The real reason for the attack was apparently that the island was developed with American funds exclusively to the extent of $100,000,000 and while Italy had no particular quarrel with America, another recent member of the Axis group wished to retaliate for recently imposed embargoes in a concrete way.

Bahrein Island was developed by Standard Oil of California but in 1936 this company joined up with Texas Corp. for mutual advantages. S. O. California had production but only meager marketing facilities while Texas Corp. had no nearby production although it did have a widespread marketing organization operating in China, India, Australia, Africa and the East. Now the combined facilities of the two companies provide crude production of approximately 30,000 barrels daily as well as complete distribution facilities. The Saudi-Arabian properties are extensive—embracing nearly one-quarter million square miles—but as yet they are far from being fully developed. Nevertheless, these properties now furnish nearly half of the crude oil produced by the combination and the eventual possibilities are almost without limit.

Earnings from the Bahrein group are substantial—estimated at $6,600,000 in 1939—but are said to have been used to liquidate pre- (*Please turn to page* 174)

which between them produced approximately 110,000,000 barrels of high grade crude oil last year and could be made to do better if the wells were forced. This would, indeed, be a prize for the oil-starved Axis powers and a stake well worth fighting for.

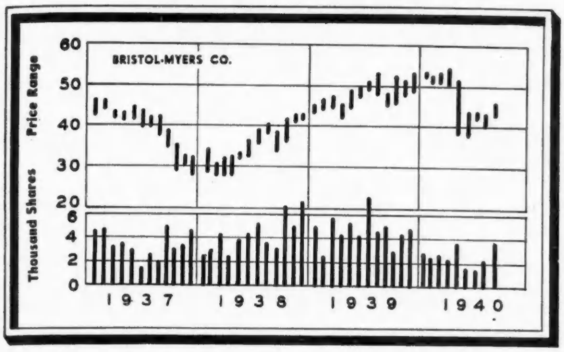
The Iran field—the larger of the two by a substantial margin—is located in the old Kingdom of Persia and is operated solely by British interests. This field produces nearly 4 per cent of the world's total annual output of crude oil. The controlling company—Anglo-American Oil Co.—operates a large refinery at the head of the Persian Gulf where it supplies the British fleet and other British fighting forces in the Near East with motor fuel and fuel oils. However, since this study is of American oils abroad, the only importance of the Iran field to us is that it serves to locate the less prolific although highly important Irak field in which an American group of oil companies holds approximately a 24 per cent interest.

The Irak field, or more correctly the Mosul field, lies to the west of the Iran field and probably represents a continuation of the larger field. This concession has been operating since 1925 and still has 60 years to go unless something akin to the Rumanian situation develops here. The concession is exploited by a joint international company comprised of British, Dutch, French and American owners. Anglo-Iranian Oil, which controls the Iranian field exclusively, is one of the largest stockholders of the Irak company as is the Royal-Dutch Shell Company. The American interests are represented primarily by Standard Oil of N. J. and Socony-Vacuum as well as other smaller units and as has been said before, the combined American interest in the Irak field is about 24 per cent. What S. O. New Jersey and Socony may value their holdings at is not disclosed in their reports although the amount is undoubtedly substantial.

Up to now neither the Axis powers nor Russia have made any attempt to molest the Iran and Irak fields. It

6 Sound Stocks Yielding Over 5 per cent

BRISTOL-MYERS CO.



BUSINESS: Bristol-Myers is one of the largest of the country's producers of proprietary remedies and toiletries. The line of products includes "Ipana" tooth-paste; "Sal Hepatica," a saline laxative; "Ingram's" milk-weed preparations; "Minit-Rub," a counter-irritant salve; "Mum," a perspiration deodorant; "Vitalis," a hair-dressing and "Peterman's" insecticides. "Rubberset" shaving and other brushes are also made. All of the line is well known by virtue of the company's aggressive advertising methods, although "Ipana" and "Sal-Hepatica" are the leading sellers. By far the greatest part of the company's expense is for advertising, which make prolific use of every medium, although the radio is probably the most used of them all.

FINANCIAL POSITION: There are no funded debt, bank loans or other capital obligation ahead of the 681,973 shares of $5 par value capital stock outstanding. Real property and equipment which had a cost value of $3,642,383 are carried at approximately half of that amount, while valuable trade-marks and the unquestionably costly "good-will," acquired through long years of radio and other advertising, is carried at $1. The company's current financial position is strong. At the close of 1939, cash and marketable securities alone were equal to nearly three times total current liabilities of $1,174,850, while the current asset ratio was better than 5.4 to 1. Average per share earnings for the past 4 years were $3.32, as compared with $3.49 for 1939. Based on first half reports it is estimated that this year's results will be approximately average, although probably somewhat below those of a year ago due to a reduction in foreign business.

OUTLOOK: The company's products are well regarded by the public and accordingly sales in countries not as yet engaged in war are expected to stay at substantial levels. The outlook for sales in the United States is good and will serve to offset a sizable part of foreign declines. The current dividend rate is apparently secure. Earnings, however, will probably remain close to average levels for the near term, at least.

MARKET ACTION:	Bristol Myers	Market Average	Bristol's moves in relation to avge.
'37 high to '38 low..........	40% decline	64% decline	38% narrower
'38 low to '38 high..........	54% advance	76% advance	29% narrower
'38 high to '39 low..........	3% decline	34% decline	91% narrower
'39 low to '39 high..........	27% advance	44% advance	39% narrower

Average volatility on four moves 49% less than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—45. Better consumer buying power should sustain sales gains.

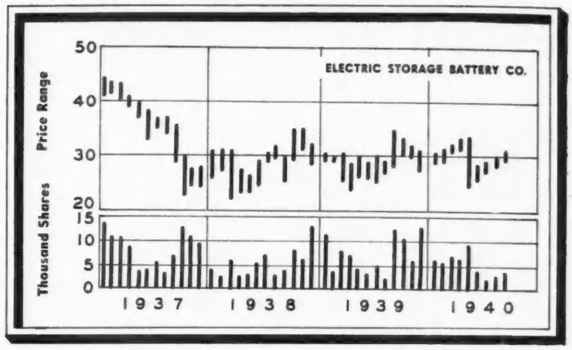
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1933..............	$8.266	$2.156	$3.10	$0.60	38¼-25
1934..............	9.754	1.966	2.82	2.40	37½-26
1935..............	11.607	2.233	3.25	2.40	42 -30⅜
1936..............	14.214	2.275	3.31	2.60	50½-41
1937..............	15.453	2.198	3.21	2.60	47 -28
1938..............	14.850	2.218	3.25	2.40	43 -28
1939..............	16.041	2.380	3.49	2.40	53 -41¾
1940 (1st half)......	NA	1.143	1.68	x1.80	x53¾-38
1939 (1st half)......	NA	1.319	1.93	....	....

x—1940 to date. NA—Not available.

Thumbnail Stock Appraisal

ELECTRIC STORAGE BATTERY CO.



BUSINESS: Electric Storage Battery Co. is the manufacturer of the well-known "Exide" and "Willard" batteries. In normal times approximately 60 per cent of the output is taken by the automotive industry for new equipment and replacements. The remaining 40 per cent finds its way into industrial use, mostly for railroad signals, private lighting plants, stand-by equipment for public lighting and similar uses. Under present conditions, however, there is a large and growing demand for electric accumulators for submarines, battle-ships, merchant vessels and numerous military operations where electric current is required when away from the usual sources of such energy. The British subsidiary—which in turn controls numerous other subsidiaries—is the most important of the parent company's foreign interests. Two manufacturing plants are located in Pennsylvania and one in Los Angeles, while sales branches and service facilities are scattered throughout the country.

FINANCIAL POSITION: The company has no funded debt and there is an issue of only 1,256 shares of $25 par value cumulative preferred stock ahead of the 906,554 shares of no-par common stock outstanding. The company maintains an exceptionally strong cash position. At the close of 1939, cash and marketable securities had a value of more than $14,000,000, as compared with total current liabilities of $2,187,048. At the same time, total current assets—including cash and marketable securities—was $26,108,437, or better than 12 to 1. Inventories of $7,129,234 were at a new high since 1932, although such a position is warranted by the large volume of business on hand and potential orders for defense materials. The company has maintained both earnings and dividends at good levels throughout the depression period and there is no indication of any near-term reversal of policy in this respect.

OUTLOOK: There is no prospective decline in automotive demand for the company's products, although there is every prospect that the automotive end of the business will assume a less important relative position as defense demand increases.

MARKET ACTION:	El. Storage Battery	Market Average	Storage Battery's moves in rel. to avge
'37 high to '38 low..........	51% decline	64% decline	20% narrower
'38 low to '38 high..........	61% advance	76% advance	21% narrower
'38 high to '39 low..........	33% decline	34% decline	2% narrower
'39 low to '39 high..........	49% advance	44% advance	11% wider

Average volatility on four moves 8% less than M. W. S. index of 309 common stocks.

COMMENT: Recent price—31. With naval demand supplementing industrial requirements business prospects continue to improve.

Long-Term Record

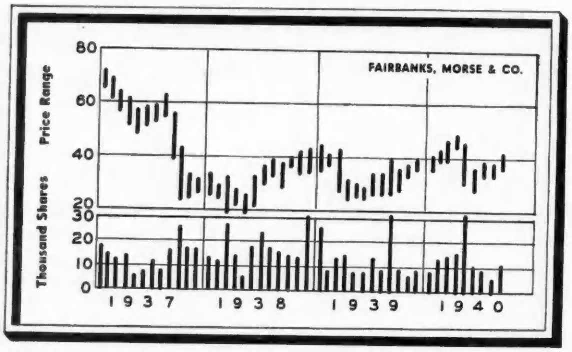
Year	Gross Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932..............	$16.863	$2.198	$1.39	$2.50	33¼-12⅝
1933..............	16.824	1.815	2.23	2.00	54 -21
1934..............	19.237	2.042	2.21	2.25	52 -34
1935..............	21.527	3.177	2.48	3.50	58¾-39
1936..............	25.452	2.496	2.86	2.75	55¼-39⅜
1937..............	27.057	2.269	2.32	2.50	44½-22
1938..............	24.052	1.815	1.05	2.00	35 -21¾
1939..............	28.409	1.815	2.01	2.00	35 -23½
1940 (1st half).......	NA	† .775	0.85	x1.50	x33½-24⅞
1939 (1st half).......	NA	.388	0.43	....	....

†—After provision for Federal income tax on new rate. x—1940 to date. NA—Not available.

Thumbnail Stock Appraisal

6 Sound Stocks Yield

FAIRBANKS, MORSE & CO.



BUSINESS: Fairbanks, Morse & Co. manufactures internal combustion engines, electric motors, electric equipment, scales, automatic fuel stokers, water supply systems, various types of heavy machinery and Diesel engines. In normal times Diesel engines furnish 25 per cent of the company's total sales volume, although their importance has increased vastly since the outset of our preparedness activities. The Diesel engines, made in a wide range of powers for numerous purposes, will probably dominate the company's business for the next several years at least. Fairbanks, Morse Diesels are standard equipment for U. S. Navy submarines and battleships, while all of the newer tanks are to be powered with similar equipment. Foreign sales normally account for approximately 10 per cent of total sales, but with the removal of competitive German, and other European products from the market, Fairbanks, Morse's foreign business is likely to increase rather than decline.

FINANCIAL POSITION: The company has pursued a commendable policy of refinancing to take advantage of present capital market conditions. To do so has entailed the application of a considerable portion of liquid resources, but now the only capital obligations outstanding are $4,343,000 remaining of an original $6,000,000 4 per cent debenture bonds, issued in 1936 to replace higher interest bearing obligations, and 599,595 shares of common stock. Bank loans of $475,000 were outstanding at the beginning of this year, but since that time they have been retired thus leaving the company free of any but normal current debt. Despite the accent upon capital revision and debt elimination, the company has maintained a strong financial position. At the close of last year, total current assets were more than 5 times greater than total current liabilities.

OUTLOOK: Diesel engines are likely to furnish the greatest impetus to volume, although in recent months the company is said to be getting a larger than proportionate share of electrical equipment and other business as well. More than $22,000,000 government business was booked in the third quarter of this year and more is following.

MARKET ACTION:	Fairbanks Morse	Market Average	Fairbanks Morse moves in rel. to avge.
'37 high to '38 low..........	73% decline	64% decline	14% wider
'38 low to '38 high..........	121% advance	76% advance	59% wider
'38 high to '39 low..........	44% decline	34% decline	29% wider
'39 low to '39 high..........	83% advance	44% advance	88% wider

Average volatility on four moves 50% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—45. All branches of the company's business should show sharp gains.

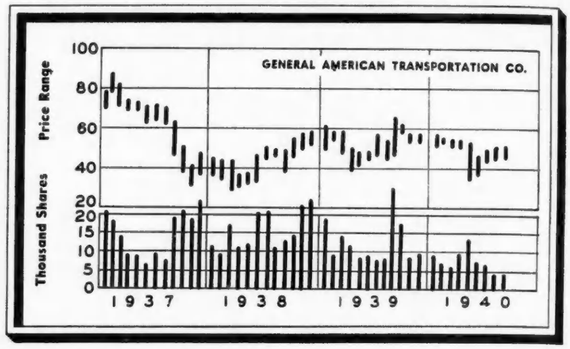
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932..............	$8.585	d$2.547	d$8.16	....	6⅛- 2¼
1933..............	8.908	d1.147	d4.36	....	11¼- 2½
1934..............	12.551	.564	0.28	....	18¾- 7
1935..............	18.221	1.466	2.47	....	†39½-17
1936..............	26.828	2.253	3.81	....	71¾-34¾
1937..............	30.596	2.148	3.48	$2.00	71⅞-23½
1938..............	20.957	.559	‡0.83	0.25	43 -19½
1939..............	24.490	2.470	4.12	1.50	43⅞-24
1940 (1st half).......	12.155	.948	1.58	x1.50	x49¼-29½
1939 (1st half).......	11.385	.718	1.20	....	....

†—Listed Nov. 26, 1935. x—1940 to date. ‡—After preferred dividend.

Thumbnail Stock Appraisal

GENERAL AMERICAN TRANSPORTATION CO.



BUSINESS: The company specializes in the manufacture and leasing of tank cars, refrigerator and other special types of railroad cars. A 22 per cent interest in Pressed Steel Car, the third largest producer of railroad cars in this country, is owned as well as several other subsidiaries engaged in related activities. Foreign interests include holdings of Canadian General Transportation Co.—controlled by Canadian Car & Foundry—and a French car leasing company. The latter holding is now probably of little importance. Although the company has a number of activities, car leasing is the most important as a contributor to earnings. The company has, however, constantly sought to diversify its business and accordingly has also recently entered into the motor bus and aviation fields.

FINANCIAL POSITION: The funded debt, mostly equipment trust issues, is $26,736,000, with no sizable early maturities. Following the debt are 1,032,315 shares of $5 par value common stock. Financial revisions have taken a moderate toll of liquid assets but on the whole the financial position is strong. At the close of the last year, cash and marketable securities valued at more than $4,800,000 were but slightly below total current liabilities of $4,827,604 and working capital of $8,721,638—while moderately lower than a year before—was adequate for the company's purposes. With 1940 earnings running sharply ahead of those of a year ago it is probable that the financial position of the company has since been further improved.

OUTLOOK: Most of the company's better business to date is only very indirectly beholden to defense operations. Orders for new cars of various special types continue to come in in volume and the demand for the company's leased rolling stock is high. With the company's specialized knowledge, defense orders probably are merely a matter of time but in the interim there is adequate normal business to maintain high activity.

MARKET ACTION:	General American Transportation	Market Average	General's moves in relation to avge.
'37 high to '38 low..........	66% decline	64% decline	3% wider
'38 low to '38 high..........	104% advance	76% advance	37% wider
'38 high to '39 low..........	32% decline	34% decline	6% narrower
'39 low to '39 high..........	38% advance	44% advance	14% wider

Average volatility on four moves 12% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—50. Should benefit from military orders at a later date.

Long-Term Record

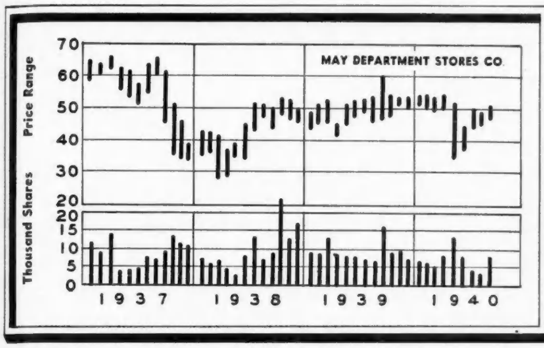
Year	Gross Revenues (millions)	Net Income (millions)	Net Per Share	Dividend	Price Range
1932..............	$17.958	$1.639	$2.20	$1.50	35¾- 9½
1933..............	19.728	1.975	2.51	1.00	43¼-13¾
1934..............	26.502	2.385	c2.91	1.00	43⅝-30
1935..............	27.342	2.209	2.64	1.75	48½-32⅝
1936..............	38.696	2.966	2.92	3.00	76 -42¼
1937..............	45.935	4.543	4.44	3.50	86½-31½
1938..............	27.090	3.005	2.91	2.25	59¼-29
1939..............	27.821	3.214	3.11	2.37½	65 -40
1940 (1st half).......	......	2.281	2.21	x1.25	x57¼-35¾
1939 (1st half).......	......	1.268	1.23	....	....

x—1940 to date. c—After deductions for issuance of stock under General American Tank compensation plan.

Thumbnail Stock Appraisal

...ing Over 5 per cent (cont'd)

MAY DEPARTMENT STORES CO.



BUSINESS: The company operates a chain of 6 large department stores located in Baltimore, Cleveland, Denver, Los Angeles, Akron and St. Louis. The first four stores are operated under the name of the May Co., while the Akron and St. Louis stores are operated under the names of The M. O'Neil Co. and the Famous-Barr Co., respectively. All of the stores have modern departments catering to almost every conceivable consumer need or desire. The Los Angeles, Akron, Cleveland and St. Louis stores also furnish patrons with garage service; the garages being located within a short walk of the stores themselves. Only this year the company entered the radio broadcasting field with a new broadcasting station in Los Angeles. It carries nationally advertised merchandise as well as its own brands, thus offering customers a choice in price lines.

FINANCIAL POSITION: The funded debt consists of $4,749,305 of subsidiary mortgage debt, and there are $5,000,000 of bank loans. The latter loan was made last May to refund $2,000,000 in loans shown at the year-end and to finance new construction. Approximately 1,230,000 shares of $10 par value common stock follow the funded debt and bank loans. Despite the fact that the company has taken advantage of its credit position to borrow $5,000,000 at approximately 1¾ per cent, the financial position at the close of the company's fiscal year on January 31, 1940, was strong. Cash and government securities of $6,012,727 was comfortably in excess of total current liabilities of $5,416,635, while total current assets were better than 6 times larger than the total quick debt. Inventories of $14,345,712 were equivalent to about 7 weeks' average sales.

OUTLOOK: Most of the company's stores are located in the center of highly industrialized areas with the result that this year's business should show somewhat better gains than the department store field in general. This is borne out, in a manner, by the first half year earnings which were about 36 per cent higher than a year ago.

MARKET ACTION:	May Depart. Store	Market Average	May's moves in relation to avge.
'37 high to '38 low	57% decline	64% decline	11% narrower
'38 low to '38 high	86% advance	76% advance	13% wider
'38 high to '39 low	23% decline	34% decline	32% narrower
'39 low to '39 high	32% advance	44% advance	27% narrower

Average volatility on four moves 14% less than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—52. The company's unique situation in highly active industrial centers favors rising sales.

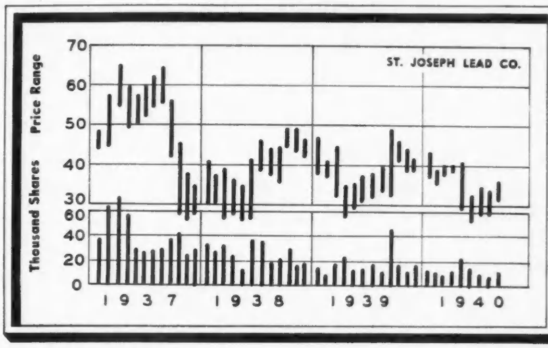
Long-Term Record

Year†	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends c	Price Range
1932	$72.5	$0.95	$0.77	$1.40	20 - 9½
1933	76.5	2.91	2.36	1.00	33 - 9¾
1934	86.8	3.30	2.68	1.60	45¾-30
1935	89.3	3.46	2.81	1.85	57¾-35⅞
1936	101.8	5.07	4.12	3.50	70 -43¼
1937	107.0	4.92	4.00	3.75	66¼-33¾
1938	98.4	3.81	3.10	2.25	53 -28½
1939	103.9	4.40	3.58	3.75	53¾-40¾
1940 (1st half)	49.5	1.47	1.20	x2.25	x53½-36⅜
1939 (1st half)	49.7	1.08	0.88	....	....

†—Year ends Jan. 31 of the following calendar year. c—Calendar year. —1940 to date.

Thumbnail Stock Appraisal

ST. JOSEPH LEAD CO.



BUSINESS: St. Joseph Lead Co. owns practically all of the active lead mines in the prolific lead producing area of southeastern Missouri. The company and its subsidiaries produce better than one-quarter of all of the lead mined in the United States. The lead ore in the principal mines is not the richest in the country, but its quality is so uniform and recovery so economical that the company is one of the lowest cost producers. Properties are also owned in Montana, New York, California and the Argentine. Refining facilities are equipped to handle 100,000 tons of pig lead, 150,000 tons of concentrates a year. This is only approximately 33 per cent of the company's mine capacity, but American Smelting & Refining handles the balance of the ore on a custom basis.

FINANCIAL POSITION: The company has no funded debt or bank loans ahead of the 1,955,684 shares of $10 par value common stock outstanding. The financial position is strong with cash items at the end of June being more than 3 times greater than total current liabilities of $3,036,191. Current assets of $19,651,604 were more than 6 times greater than the total quick debt. Inventories of $5,752,568 at the mid-year were not only lower than a year before, but must be considered small in view of the demand and potential scarcity of lead over the longer term. The dividend record is good.

OUTLOOK: Lead is a prime necessity in the manufacture of armament and munitions and as such is in increasing demand. Other defense preparations such as naval vessels, tanks, auto trucks and many other articles all require lead. White lead, the familiar paint pigment, is also in increasing demand and promises to consume much more than its usual 13 per cent of the nation's output of metal. Prices for lead are firm and will probably advance as time goes on and inventories decline. Earnings prospects are good; increasing business promising to compensate for higher taxes and therefore the current dividend is not only considered to be secure, but also likely to be revised upward later on.

MARKET ACTION:	St. Joseph Lead	Market Average	St. Joseph's Lead in relation to avge.
'37 high to '38 low	61% decline	64% decline	5% narrower
'38 low to '38 high	93% advance	76% advance	22% wider
'38 high to '39 low	45% decline	34% decline	32% wider
'39 low to '39 high	82% advance	44% advance	90% wider

Average volatility on four moves 35% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—36. Company is favored by rising demand for its products and firmer lead prices.

Long-Term Record

Year	Net Sales (millions)	Net Income* (millions)	Net Per Share	Dividends	Price Range
1932	NA	d$1.290	d$0.66	$0.15	17¾- 4⅝
1933	NA	0.11	0.06	....	31¾- 6⅛
1934	$14.3	0.66	0.34	0.30	27⅞-15¼
1935	15.3	0.79	0.40	0.40	25¾-10¼
1936	22.6	3.00	1.53	1.00	50⅜-22
1937	32.8	7.55	3.86	2.50	65 -26½
1938	19.6	1.64	0.84	1.00	49¼-25½
1939	30.4	5.86	2.99	2.00	49½-27¼
1940 (1st half)	18.2	3.02	1.55	x1.25	x42 -26
1939 (1st half)	11.3	1.62	0.83	....	....

*—Before depletion. †—After depreciation but before depletion. x—1940 to date.

Thumbnail Stock Appraisal

For Profit and Income

Revolving Credit

Transcontinental & Western Air, Inc., has arranged a revolving credit with a group of banks to finance its purchase of additional planes. The ships will be 24-passenger Douglas DC-3s and the first purchase involves fifteen of them. Exactly how the airlines are going to fit their needs in with the national defense program is not yet clear. If TWA can get delivery of these planes within the next three months, as contemplated, they must have been built or under construction before the pressure for rearmament in the U. S. became intense.

Record for Equipments

The Wheeling & Lake Erie has sold one to ten year equipment trust certificates at the lowest rate ever paid for such maturities. The amount was small —$1,550,000—and with a coupon of one per cent the certificates were quickly sold by the banking group which bought them.

London Market

English stocks have continued their rally in much more determined fashion than Americans. Rails have recently gone through to a new high on the recovery movement and industrials have pushed into similar new high ground with a rally lasting nine consecutive days.

Dow Theory

Ever since the June 10th lows the market has been staging a prolonged intermediate uptrend which may or may not be the first leg of a new bull market, according to Dow theorists. Even if the averages should go far above their levels of early this year (when the Theory called it a bull market) we should be unable to accept it as a bull market under Dow Theory until a reaction lasting several weeks had cancelled roughly one-third to two-thirds of the advance and until the succeeding upmove had gone beyond the limits of the present one in both industrials and rails. It takes patience to follow in Dow's footsteps.

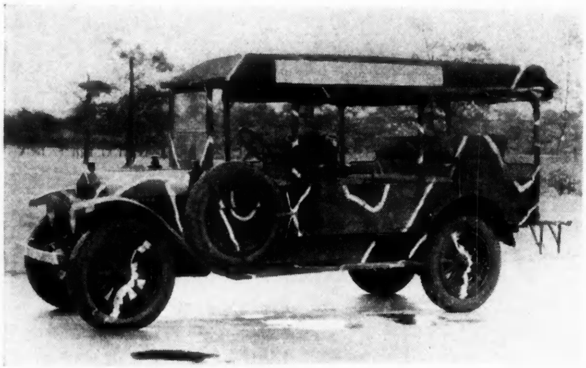
Retail Gains

October was the best month in **Sears, Roebuck & Co.'s** history, with the single exception of December, 1939. The increase of 14.4 per cent over a year ago was undoubtedly helped by the fact that October, 1939, had five Sundays while the month just ended had only four.

Montgomery Ward showed a gain of 3.6 per cent for October over a year ago, which is just about what would be expected because of the greater number of working days in the month.

G. C. Murphy sales in October were up 12.7 per cent, **Walgreen** up 7.2 per cent, **W. T. Grant** up 16.4 per cent, and **Woolworth** up 7.9 per cent.

Among the retail outfits steadily pursuing the comeback trail is **Marshall Field**, with earnings in the third quarter after allowance for all new taxes of 32 cents per share as compared with 24 cents a year earlier. Nine months net amounted to 90 cents a share against 54 cents. In 1939, as usual, the greater part of earnings came in the fourth quarter when $1.38 per share was shown. If a similar result were to be obtained this year it would bring net



What 23 years can do to U. S. Army scout cars. Two models built for the Government by White Motor Co. in today's and yesterday's armament programs.

for 1940 to $2.28 a share and would suggest that the 10-cent quarterly dividend might well be augmented by an extra.

Fine Example Set

Eastman Kodak Co. has announced that it will voluntarily refund to the Government any profits on defense work "it might make in excess of 10 per cent of cost." The company understands that it is the first to have made such a pledge to the Government in connection with the National Defense Program, but in the opinion of a good many the example might well be followed by others.

"While the company is not assured of any profit under the present defense contracts, it will nevertheless refund any profit it may make in excess of 10 per cent of cost," the announcement read. "As each of these contracts will extend over a period of several years, any profit up to 10 per cent retained by the company must be spread over that period.

"Any profit retained up to 10 per cent will, of course, be subject to income and excess profits taxes, which at present rates will probably amount to nearly two-thirds of any such retained profit."

Tax Advantages

The new tax law applies to fiscal years beginning on or after January 1, 1940. Concerns like the **farm equipments** and the **meat packers** are therefore free of the increased taxes until the end of their fiscal year which is just beginning. In some cases the advantage is even greater, for **Douglas Aircraft** with its bookkeeping year ending November 30 is not only exempt from the new taxes but will also have a very good year to add to the four which average out to form its base for credit under the excess profits tax. In the nine months ended August 31, 1940, earnings amounted to $12.15 a share and for the full fiscal year are obviously bound to be a big improvement over any others that could possibly be included to make up an average of earning power. Naturally, Douglas has not allowed for the effect of the new taxes in reporting any current earnings.

Standard Market Leaders Grouped According to Position in 1940 Price Range

Company	Price Range 1940		Recent Price	Price Nov. 8, 1939	Current Earnings		1939 Comparison
Group I—Issues in Highest Quarter of Their Own Price Range for Year to Date							
Pennsylvania R.R.	25⅛	15	25	24¾	$1.73	9 mos.	$1.12
Bethlehem Steel	93¼	63½	93	83¼	9.72	9 mos.	1.89
U. S. Steel	76½	42	76	70½	5.80	9 mos.	.75 def.
National Steel	73¾	48	71	74	4.92	9 mos.	3.91
General Motors	56⅜	37¼	54	54⅜	2.83	9 mos.	2.39
Chrysler	91⅝	53½	84	86¼	7.06	9 mos.	7.22
Allied Chemical	182	135½	173	173	....		....
Westinghouse	118	76	109	110¾	4.94	8 mos., Aug.	2.98
Anaconda	32	18	29	32⅛	2.18	9 mos.	.48
Group II—Issues in Second Quarter of Own Price Range							
Douglas Aircraft	94⅞	65⅛	87	80⅝	12.15	9 mos., Aug.	3.97
American T. & T	175¼	145	167	168¾	7.23	9 mos.	6.69
Intl. Harvester	62¾	38	56	60⅞	....		....
Johns Manville	77½	44	65	76¾	3.72	9 mos.	2.69
General Electric	41	26⅛	35	38¾	1.29	9 mos.	.87
Amer. Smelt. & Ref.	54	30¼	49	51⅝	2.12	1 st half	1.68
N. Y. Central	18⅞	9¼	16	19½	.16	8 mos., Aug.	1.38 def.
Union Pacific	98	71	84	100½	1.77	8 mos., Aug.	1.57
Union Carbide	88⅜	59⅞	75	87	3.33	9 mos.	2.11
United Aircraft	53⅜	31½	45	47⅛	2.34	1st half	1.38
Nat'l Distillers	26⅞	17	22	23¾	1.56	9 mos.	1.54
Eastman Kodak	166¾	117	142	162⅞	3.63	1st half	3.18
DuPont	189¼	146½	171	177⅜	5.64	9 mos.	5.08
Loew's	37⅝	20½	30	34⅞	4.39	9 mos., May	4.62
Goodyear T. & R	24⅞	12½	19	25¼	1.23	1st half	.96
Sears, Roebuck	88	61¼	79	82⅛	2.67	24 wks. July	2.42
Group III—Issues in Third Quarter of Own Price Range							
St'd Oil of Calif.	26⅛	16¼	20	27¼	1.29	9 mos.	.97
Int'l Nickel	38⅞	19⅜	28	40	1.17	1st half	1.15
Consolidated Ed	32⅞	23	26	30½	1.68	9 mos.	1.69
Woolworth	42¼	30	35	39⅝	....		....
North American Co	23¾	14⅝	19	22⅝	1.38	9 mos.	1.33
Texas Corp	47⅝	33	39	46½	3.10	9 mos.	1.61
American Can	116½	87	95	107½	....		....
Procter & Gamble	71¾	53	59	62	.69	3rd quarter	1.06
St'd Oil of N. J.	46½	29⅞	36	47¾	....		....
Group IV—Issues in Lowest Quarter of Own Price Range							
American Tobacco "B"	91¾	69	74	78¾	....		....
Dow Chemical	171	133	140	138½	1.97	3 mos. Aug.	1.33
Corn Products	65⅛	43	45	63	1.89	9 mos.	2.29
General Foods	49⅜	35½	37	44	1.89	9 mos.	2.28
Public Service N. J.	43½	30⅞	33	39¼	2.53	12 mos., Sept.	2.94

Arbitrage Discontinued

Curiosity has been expressed as to how the Amsterdam Bourse could act entirely independently of the New York market even when trading in American issues. The most spectacular instance of this was on the day following the American election, when New York ran into heavy selling while in Amsterdam the same issues were up as much as five points. The explanation, of course, is that the flow of securities and of arbitrage transactions between the two countries has been entirely stopped by the invasion and blockade.

Big Steel At the Top

Shipments of **U. S. Steel** subsidiaries in October amounted to 1,572,408 tons of finished products, second only to May, 1929, when 1,701,874 tons were shipped. For the first ten months of 1940 the gain over a year ago figures out at about 35 per cent, although the rate can not be maintained as good months of 1939 come up for comparison.

Big Steel has also regained its place in the market, leading in volume with unusual consistency and setting the pace for its group as well as for the entire list. For the time being, at least, traders have forgotten the days when they counted Steel out, called it a has-been, and pointed to the ability of the smaller companies to make money with operations at a moderate rate of capacity. When volume is demanded of the steel industry, U. S. Steel is still the biggest frog in the puddle.

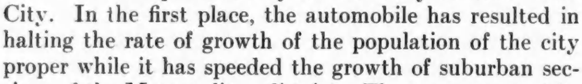
What is Retarding R. H. Macy?

The Problems—and the Methods Being Adopted to Solve Them

BY PHILIP DOBBS

IN ITS 92 years of existence as a retail dry goods establishment in New York City, R. H. Macy & Co. has experienced many changes in the city's buying habits and customs. It has seen the shopping center of the city move from the then "up-town" area of 14th Street progressively northward to the present mid-town section of 34th Street and is well aware of the continued trend toward the upper reaches of the Metropolitan area. As each migration of the retail shopping areas got under way, Macy has almost invariably anticipated the move. The present 34th Street store has been there since 1902 but while the district is not as yet definitely "out" as a shopping center, Macy has already established bases in the outlying districts of the surrounding country in order to continue to serve its widely scattered clientele.

Many modern developments have strongly affected retail trade as practiced by R. H. Macy in New York City. In the first place, the automobile has resulted in halting the rate of growth of the population of the city proper while it has speeded the growth of suburban sections of the Metropolitan district. The same automobile has raised traffic problems that make it inconvenient for many suburban dwellers to come to the city to do their shopping and thus restrict city store personal sales mostly to residents of the city proper. In order to meet this situation Macy has done two things. It has developed its mail and telephone business by making its advertising highly descriptive and attractive as well as supplying every convenience to expedite telephone and mail orders. The second step has been to take the store to the out-of-town customers by establishing branches close to large centers of suburban population and by acquiring large, established, retail organizations serving secondary cities contiguous to large suburban areas. The new Parkchester branch to be opened in the Bronx Borough of New York City is an outstanding example of the branching policy while L. Bamberger & Co., of Newark, New Jersey, is an illustration of the second policy of extending the scope of personal service.



Recognizing that diversification of geographic locations tends to stabilize sales and earnings in all but the most abnormal times, Macy has also gone further afield by acquiring Lasalle and Koch Co. of Toledo, Ohio and Davison-Paxon Co. of Atlanta, Ga. And further, a new store, Macy of Syracuse, has just been opened in Syracuse, N. Y., in order to serve that metropolis of northern New York. The parent store and other subsidiaries than L. Bamberger & Co. account for approximately two-thirds of total sales, although the relative contribution of the New Jersey unit will shrink as new subsidiaries and branches of the parent organization are opened.

Macy's merchandising methods are unique. The company carries a wide line of nationally advertised brand products but also has built up a long line of its own branded products which it sells at prices considerably below those of the advertised brands. These products are reputed to be of equal quality as compared with the more widely known articles although they are priced substantially below them. Macy's employs a large research and testing laboratory in order to hold quality of its own branded products at high levels; the ability to sell at lower prices coming mostly from the fact that Macy makes its own articles and does not have to include the same ratio of costs of large and constantly maintained publicity. The private brands cover every broad classification of merchandise from apparel to sporting goods although perhaps the "York House" and "Red Star" lines of foods, table delicacies, wines and liquors are the best known.

For many years Macy sold only for cash and based their claimed ability to undersell any competitor by at least 6 per cent on that premise. Changing times and selling methods of competitors—especially in articles calling for heavy cash outlays—have recently made it politic for Macy to abandon their slogan "Nobody is in debt to Macy's" and customers now are able to purchase on a deferred payment basis. The installment charge is moderate and the financing is done through a Macy subsidiary which also purchases installment paper from L. Bamberger & Co. and the branch and subsidiary stores. While installment business represents but a relatively small proportion of total sales, it has nevertheless permitted the company to maintain its competitive position in the field. On purchases in excess of $200, the Morris-Plan Industrial Bank of N. Y. reimburses Macy for the full purchase price of the article involved at a charge of $6 per annum for each $100 of merchandise involved. In addition the company still maintains its banking facilities whereby customers may purchase against previously made deposits.

Charles Phelps Cushing Photo.

Prior to Macy's staying open one evening a week for the benefit of many who can not shop during the day, stores of similar size were open after dark only during the Christmas season. Now most large stores have followed Macy's lead.

Despite the fact that Macy has been a leader in developing innovations in merchandising methods it has not benefitted exclusively from its inventitivness. Competitors, particularly Bloomingdale Brothers on the upper East Side of New York and Namm's in Brooklyn, have not only adopted Macy's technique but, through confining their sales more to neighborhood clientele, have perhaps been somewhat more successful in their exploitation. Moreover, while rendering practically the same kind of service to their customers as Macy offers, these competitors have cut in substantially on Macy's potential trade.

Another development which has been retarding the sales of all of the large department stores is the rise of the specialty shops. These small shops, usually owned and operated by people who obtained their first experience in merchandising with Macy or one of the other large stores in the city, carry only one class of goods, be it millinery, lingerie, cosmetics or dress accessories. Overhead charges are relatively light for specialty shops and since their brand of service is more intimate and their merchandise more up to date, they can compete with the larger stores on a price basis as well as in quality and style. While these specialty shops may be poorly financed and may not last long in one location, they do, nevertheless, take sales away from their larger competitors while they last and when they depart there seems to be no lack of others to take their place.

In the suburbs there are also specialty shops and in some areas their competitive influence is augmented by the presence of large branches of Sears Roebuck and Montgomery Ward who not only supply all of the various merchandise offered by Macy but also many items not practical to carry in Macy's stock. Hackensack, N. J., and Brooklyn, N. Y. stores of Sears Roebuck and the Jamaica store of Montgomery Ward & Co. are complete department stores in themselves and service a wide area which formerly was a part of the acknowledged sales area of Macy and kindred establishments. Macy will undoubtedly make every effort to obtain a full share of the business in these territories although the cost of sales is bound to increase for each branch calls for duplicate personnel and inventories as well as the maintenance and operation of additional premises to obtain a volume of business that formerly accrued to the company's main store.

As a result of sales promotional work and expanding outlets, Macy's sales have, on average, been increasing. Total net sales for the fiscal year ended February 3, 1940, totalled $130,433,686 as compared with $125,223,908 a year before and $135,856,663 in the 1929 fiscal year. However, profit margins have not followed along in similar proportions nor have net earnings; for while 1939 net sales were but $5,400,000 lower than in 1929, net income declined $4,800,000. Earnings per share of common stock reflect the change in profit margins more drastically, for a decline in sales amounting to but slightly more than 3 per cent resulted in a drop in earnings per share of nearly 60 per cent when comparing last year's results with those of the previous peak earnings period. Results of operations for the first half of the company's current fiscal year indicate that profit margins are still declining moderately although a comparison of the first six months' results of any department store's business would be misleading since any large store depends in great part upon the Christmas holiday business to reverse previous losses and to average out profits for the year.

Over the longer term, Macy's sales are almost bound to increase as long as the *(Please turn to page 178)*

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Atlantic Refining Co.

I bought 50 shares of Atlantic Refining at 24 last year under the impression that oil shares were heading for a war boom period. While developments have proved my contention wrong, I am curious to know whether the prolongation of the war might not indicate that my reasoning was sound after all, and perhaps additional purchases of Atlantic Refining may be in order now. What do you advise? Do you believe that domestic operations alone from accelerated industrial activity and home use of fuel oil can result in a continuation of the high level of earnings reported for the first six months of 1940?—S. J. Fulton, N. Y.

Producing only about 35% of its crude oil requirements, Atlantic Refining Co. is primarily a marketer and refiner of petroleum products. As such its well-being depends primarily upon the spread between refined and crude prices. Products are distributed largely in highly industrialized areas of Pennsylvania, New Jersey, West Virginia, Ohio and Maryland, territories which are comparatively close to the company's highly efficient main refineries at Philadelphia, Pa. Foreign business is of little importance, amounting to only 9% of the total at the present time. Finances are sound and the 2,663,999 common shares follow only 148,000 $4 preferred shares and funded debt of $25,249,849 in the capital structure.

The company has a long record of profitable operations with net income last year expanding to $1.67 a share from $1.40 a share in 1938. The betterment has continued into the current year to date, with profits of $2.30 a share being reported for the first nine months, up considerably from $1.01 a share in the similar year earlier interval. Sales have been stimulated by sharply higher levels of industrial activity in the serviced area. Furthermore, gasoline prices in the area have been rather stable. In contrast is the fact that gasoline prices in 50 representative cities are near their all time lows. The industry as a whole has enjoyed better sales but the press of continued heavy production, huge visible reserves and declining foreign demand has severely depressed refined products prices. Should the Axis Powers gain control of the large Near East oil fields, the export market might revive and prices improve. Atlantic may continue to do better than the industry as a whole over the next several months but entering the so-called slack season and faced with the possibility of lower prices, earnings are likely to be well under those of previous quarters. Regular dividends should be maintained but an extra distribution prior to the year end is not anticipated. Reasonably priced in relation to earnings, we would suggest speculative retention but would not advise additional purchases.

Shell Union Oil Corp.

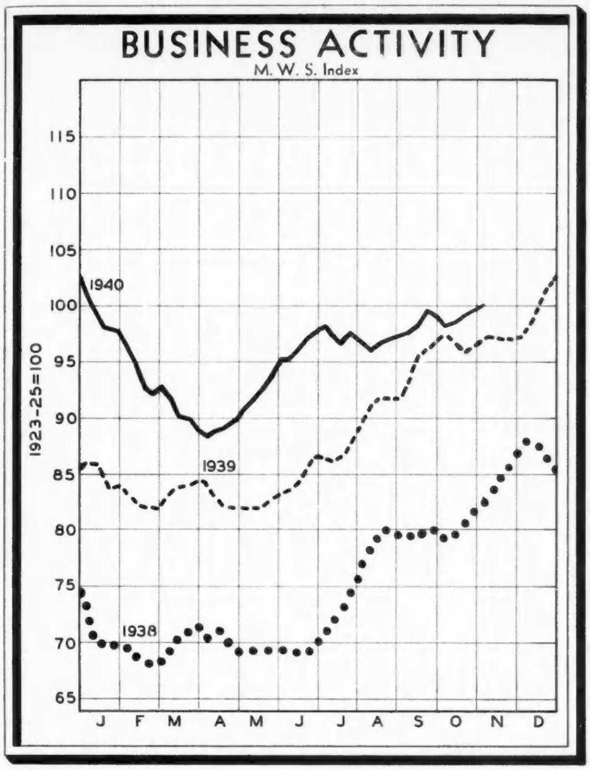
I am anxious to know what Shell Union Oil's new "toulene" TNT constituent may mean to earnings. Should there be a large demand for it by the U. S. Government in armament production? I have 125 shares of this stock acquired at 17¼ and was about to sell out because of present weakness in oil shares. Do you believe this new development should reverse my decision? Give me all data you can, as well as information on the regular operations of this company—in respect to sales and earnings of fuel oil, lubricating oil and gasoline.—G. T., New York, N. Y.

Shell Union Oil Corp., a completely integrated unit in the oil industry, operates exclusively in the United States. In addition to extensive acreage located in the country's principal producing areas, a nationwide marketing system is maintained. Price trends largely determine the level of profits. Finances are liquid and strong. Outranking the 13,070,625 common shares are 341,100 5½% preferred shares and a funded debt of $85,456,564.

Earnings have been fairly good in recent years, 76 cents a share having been realized in 1939, up moderately

(Please turn to page 170)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.



CONCLUSIONS

INDUSTRY—Per capita business activity at best level since first week of current year.

TRADE—Retail sales pick up again under spur of rising employment.

COMMODITIES—Prices advance sharply to best levels since mid-May. Inflation talk again to the fore.

MONEY AND CREDIT—Commercial borrowings continue to expand. Deposit turnover in New York lowest on record.

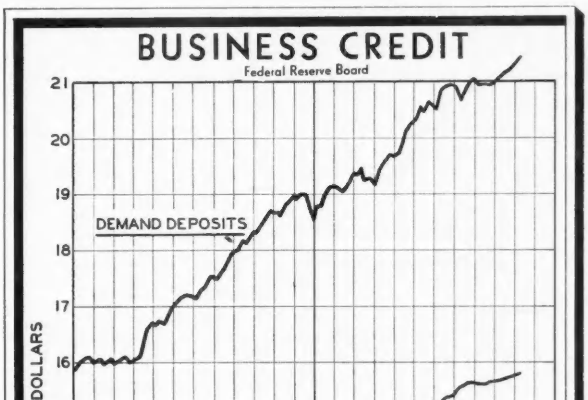
The Business Analyst

With all components of our business index—save automobile assemblies and cotton cloth production—reporting better than normal improvement during the past fortnight, per capita **Business Activity** has recovered to the 1923-5 average, the best level since January. For the month of October the average was approximately 98.8, compared with 98.5 in September and 96.4 for October, 1939. Adjusted to the basis on which the Federal Reserve Board's index of **Industrial Production** is computed, our own index of **Business Activity,** without compensation for population growth, reached 121% of the 1935-9 average in October, against 120 in Septmber and 117 for October of last year.

* * *

Now that the bitterly contested election is over, approximately half of our citizens are rejoicing over the outcome while the other half, though disappointed, have resolved to accept the majority decision philosophically, as befits a true democracy. For the losers there is the consolation of knowing that employment and incomes will be larger next year, owing mainly to export and domestic demand for war goods. Even in the third quarter just closed, aggregate industrial profits were 30% better than for the like three-months period last year, and 4% ahead of the second quarter despite larger reserves for taxes.

(Continued on following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Oct.	127	125	121
INDEX OF PRODUCTION AND TRADE (b)	Sept	94	93	89
Production	Sept	95	93	88
Durable Goods	Sept	91	87	74
Non-durable Goods	Sept.	97	96	96
Primary Distribution	Sept.	91	90	86
Distribution to Consumers	Sept.	95	96	93
Miscellaneous Services	Sept.	91	91	86
WHOLESALE PRICES (h)	Oct.	78.2	77.8	79.1
INVENTORIES (n. i. c. b.)				
Inventories	Sept.	135.5	133.5	110.9
New Orders	Sept.	164.0	140.0	161.0
Shipments	Sept.	128.0	120.0	113.0
COST OF LIVING (d)				
All Items	Sept.	86.4	86.0	84.5
Food	Sept.	80.7	79.9	76.7
Housing	Sept.	87.0	86.9	86.3
Clothing	Sept.	73.1	73.0	71.9
Fuel and Light	Sept.	85.3	84.8	84.0
Sundries	Sept.	97.9	97.4	96.9
Purchasing value of dollar	Sept.	115.7	116.3	118.3
NATIONAL INCOME (cm)†	1st 8 mos.	$47,400	......	$45,000
CASH FARM INCOME†				
Farm Marketing	Sept.	$839	$707	$835
Including Gov't Payments	Sept.	894	749	901
Total, First 4 Months	Sept.	6,175	......	5,791
Prices Received by Farmers (ee)	Sept. 30	97	96	98
Prices Paid by Farmers (ee)	Sept.	122	122	122
Ratio: Prices Received to Prices Paid (ee)	Sept.	80	79	80
FACTORY EMPLOYMENT (f)				
Durable Goods	Sept.	104.8	99.5	89.8
Non-durable goods	Sept.	109.5	107.6	110.2
FACTORY PAYROLLS (f)	Sept.	109.4	103.8	93.8
RETAIL TRADE				
Department Store Sales (f)	Sept.	97	99	91
Chain Store Sales (g)	Sept.	121	122.5	114.5
Variety Store Sales (g)	Sept.	125	127.6	119
Rural Retail Sales (j)	Sept.	127.8	146	125.4
Retail Prices (s) as of	Oct. 1	93.2	92.9	90.2
FOREIGN TRADE				
Merchandise Exports†	Sept.	$295	$349	$289
Cumulative year's total† to	Sept.	3,030	2,734	2,185
Merchandise Imports†	Sept.	195	220	181.5
Cumulative year's total† to	Sept.	1,941	1,746	1,620.6
RAILROAD EARNINGS				
Total Operating Revenues★	1st 9 mos.	$3,125,855	......	$2,862,080
Total Operating Expenditures★	1st 9 mos.	2,287,169	......	2,141,495
Taxes★	1st 9 mos.	301,447	......	265,970
Net Rwy. Operating Income★	1st 9 mos.	440,434	......	335,717
Operating Ratio %	1st 9 mos.	73.17	......	74.82
Rate of Return %	1st 9 mos.	2.36	......	1.91
BUILDING Contract Awards (k)	Sept.	$347.7	$415	$323.2
F. H. A. Mortgages				
Selected for Appraisal†	Sept.	116.3	122.0	91.7
Accepted for Insurance†	Sept.	84.7	89.4	62.0
Premium Paying†	Sept.	68.3	64.4	53.0
Building Permits (c)				
214 Cities†	Sept.	$103.6	$102.0	$84.5
New York City†	Sept.	15.3	14.0	18.7
Total, U. S.†	Sept.	119.0	116.1	103.2
Engineering Contracts (En)†	Sept.	$368.0	$357.8	$209.3

PRESENT POSITION AND OUTLOOK

(Continued from page 163)

The N. A. D. C. is considering the adoption of a general policy of utilizing private production facilities to their maximum limit before erecting additional plants solely for defense purposes. Such a procedure possesses a number of obvious advantages. By stepping up from one-shift to three-shift continuous operation the production of defense weapons will be greatly accelerated without waiting for construction of additional facilities and when the need for war goods has passed, as it must some day, the country will not be so sadly afflicted with excessive plant capacity as after the world war of 1914-18. Moreover, the plan will serve to reduce unemployment more quickly, while releasing steel and machine tool capacity to help supply the resulting expansion in demand for consumer goods. In brief, the plan would make it possible to supply both guns and butter without serious inflation.

* * *

Recent reports on **sales** and **new orders,** though somewhat mixed in trend, make a good showing on balance. According to the National Industrial Conference Board, September bookings by manufacturers were 17% ahead of August, 2% above last year, and within hailing distance of the 1937 and 1939 peaks; with **inventories** still at the August level and only 4% higher than a year earlier, though not far below the 1937 peak. **Lumber** orders booked in the week ended Oct. 26 were 50% larger than a year ago; but orders for **paperboard** during September were 12% below August and 9% lower than last year. In its longer range implications it is encouraging to note that new capital raised through floatation of corporate securities in September was 325% above last year, against a nine-months' increase of only 52%. Merchandise **exports** dipped during September, probably fortuitously, to a level only 2% above last year compared with a nine-months' increase of 52%. During the first year of the war, 44% of our total exports went to the British empire. **Wholesale sales** during September were 5% below last year, against a 9% rise in inventories. **Department store sales** in the week ended Oct. 26 were 6% above last year, against a four-weeks' gain of only 4%.

* * *

Vice President Buford of the A. A. R. states that the **railroads** will have enough equipment for home defense needs if shippers will use the cars for transportation and not warehousing.

* * *

Engineering construction awards in the week ended Dec. 31 were more than three times as large as for the like week of 1939, bringing the year's increase to date up to 25%. Factory **construction costs** rose 9% during the third quarter, but are still below the 1937 peak.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Oct.	6,462	5,895	6,080
Pig Iron Production in tons★	Oct.	4,445	4,173	4,062
Shipments, U. S. Steel in tons★	Oct.	1,572	1,393	1,346
AUTOMOBILES				
Production				
Factory Sales	Sept.	205,000(pl)	75,873	188,751
Total 1st 9 Months	Sept.	302,941,104(pl)	......	2,459,875
Registrations				
Passenger Cars, U. S. (p)	1st 8 mos.	2,341,091	......	1,821,043
Trucks, U. S. (p)	1st 8 mos.	391,011	......	337,096
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	360.2	403.2	357.9
Shipments, U. S. & Canada★ (tons)	Sept.	361.6	113.9	304.7
Mill Stocks, U. S. & Canada★ (tons)	Sept.	177.5	178.9	217.5
LIQUOR (Whisky)				
Production, Gals.★	Sept.	6,761	3,252	4,915
Withdrawn, Gals.★	Sept.	6,354	3,617	6,787
Stocks, Gals.★	Sept.	476,980	477,484	472,499
GENERAL				
Paperboard, new orders (st)	Sept.	399,133	414,966	454,817
Machine Tool Operations	Sept.	94.9	93.3	74.6
Railway Equipment Orders (Ry)				
Locomotive	Sept.	57	65	52
Freight Cars	Sept.	9,470	7,645	24,231
Passenger Cars	Sept.	21	102	3
Cigarette Production†	Sept.	14,890	15,840	14,790
Bituminous Coal Production★ (tons)	Sept.	38,410	39,240	37,695
Portland Cement Shipments★ (bb'ls)	Sept.	14,760	13,952	13,104
Commercial Failures (c)	Sept.	976	1,128	758

PRESENT POSITION AND OUTLOOK

Estimated domestic production of 450,000 **motor cars** in October, against retail sales of 390,000, points to an increase of around 60,000 in field stocks to a month-end total of around 249,000 units, or 56% above the exceptionally low level on Oct. 31, 1939. The industry is slated to receive $500,000,000 in sub-contract orders by next spring for aircraft tooling, parts and sub-assemblies. Production costs and taxes are rising.

* * *

Mr. John E. Lovely, retiring president of the National Machine Tool Builders Association states that August production of **machine tools** was at the annual rate of $450,000,000—double the rate of a year earlier—and predicts that "production in 1941 will greatly surpass this figure." Some confusion is reported at present owing to failure by the Army and Navy to specify definite delivery dates on priority ratings.

* * *

Soft coal stocks above ground on Oct. 1 were 35% larger than a year ago; yet production is picking up again after the recent brief dip. North American stocks of **newsprint** on Oct. 1 were fractionally lower than a year ago, with mill stocks off 31% and stocks held by publishers up 24%. **Portland cement** shipments in September were 13% above last year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Nov. 2	100.0	99.3	96.8
ELECTRIC POWER OUTPUT K.W.H.†	Nov. 2	2,734	2,711	2,537
TRANSPORTATION				
Carloadings, total	Nov. 2	794,797	837,651	805,862
Grain	Nov. 2	35,592	40,421	37,530
Coal	Nov. 2	125,305	136,430	159,476
Forest Products	Nov. 2	40,872	43,602	37,380
Manufacturing & Miscellaneous	Nov. 2	343,564	357,541	323,383
L. C. L. Mdse	Nov. 2	155,303	156,724	159,157
STEEL PRICES				
Pig Iron $ per ton (m)	Nov. 4	22.61	22.61	22.61
Scrap $ per ton (m)	Nov. 4	20.67	20.67	20.63
Finished c per lb. (m)	Nov. 4	2.261	2.261	2.236
STEEL OPERATIONS				
% of Capacity week ended (m)	Nov. 7	96	96	93
CAPITAL GOODS ACTIVITY (m) week ended	Nov. 2	117.4	113.1	100.8
PETROLEUM				
Average Daily Production bbls.★	Nov. 2	3,647	3,640	3,501
Crude Runs to Stills Avge. bbls.★	Nov. 2	3,535	3,565	3,556
Total Gasoline Stocks bbls.★	Nov. 2	74,877	74,935	68,350
Fuel Oil Stocks, bbls.★	Nov. 2	108,199	108,475	113,749
Crude—Mid-Cont. $ per bbl	Nov. 7	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Nov. 7	1.33	1.33	1.73
Gasoline—Refinery $ per gal	Nov. 7	.05⅛	.05⅛	.06⅞

PRESENT POSITION AND OUTLOOK

Electric power output continues to ring up new high records weekly while maintaining a 7% margin of increase over last year. Gas revenues in August, however, were only 4.7% larger than a year earlier, compared with an eight-months' increase of 7.3%. Third quarter earnings of the utilities were in many instances lower than for the like period in 1939, owing mainly to considerably heavier reserves for taxes.

* * *

The **steel operating rate** continues to rise slowly as more mills reach capacity. On an actual tonnage basis, production is at all time record levels, due to expanded capacity. Orders booked by the industry during September were 20% heavier than in August 4, and there is no possibility of any serious slackening in operations so long as export and home defense demand holds up. Deliveries are being extended—in some shapes as far ahead as February. Some of the present buying is undoubtedly for inventory stocking as a precaution against establishment of priorities; otherwise capacity would suffice for present needs.

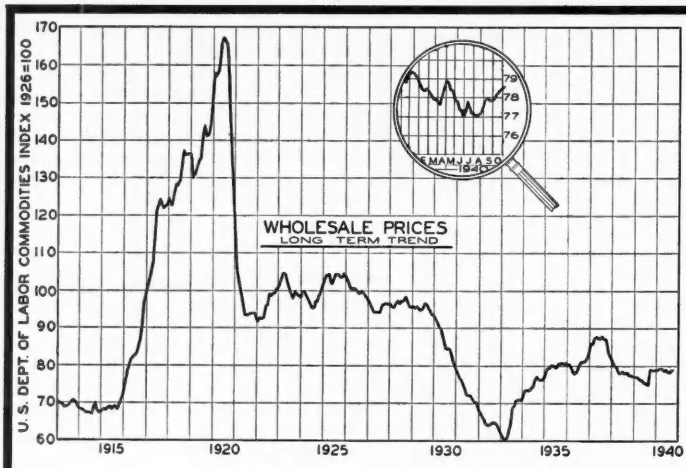
* * *

Earnings outlook for the **oil industry** appears to be clouded by higher taxes, lower prices for refined products, curtailed exports and overproduction.

†—Millions. ★—Thousands. (a)—Revised Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Inflation threats, brought to the fore again by Secretary Morgenthau's proposal to raise the national debt limit $15,000,000,000, had a sharp impact upon the commodity price structure during the past week. Prices, which had dropped precipitately, following the election suddenly reversed their course to stage one of the broadest advances witnessed in some months. Plus signs dominated the list and gains were shared by agricultural and industrial commodities alike. Such selling as appeared under the urge of profit-taking was well absorbed. Industrial buyers and speculators both, however, must still be acutely aware that the Administration may in the near future take definite steps to halt any substantial price rise. Regardless of the machinery which the government may set up for the purposes of price control, it is difficult to see how the effects can be wholly successful unless similar steps are taken to freeze wages. Thus far, there has been no intimation that the Administration has any desire to forestall an inevitable rise in labor costs.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Oct. 25	Nov. 1
28 Basic Commodities	124.2	105.6	113.3	113.8
Import Commodities	132.9	104.7	115.0	115.5
Domestic Commodities	118.7	105.5	112.3	112.7

	1940 High	1940 Low	Oct. 25	Nov. 1
Domestic Agricultural	123.8	111.4	119.3	118.8
Foodstuffs	120.0	100.5	106.7	106.9
Raw Industrial	128.4	101.3	118.5	119.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
December	Nov. 9	9.90	9.60	8.51
March	Nov. 9	9.91	9.58	9.67
Spot	Nov. 9	10.12	9.95	9.72
(In bales 000's)				
Consumption, U. S.	Sept.	629	655	625
Exports, wk. end	Nov. 1	32,790	......	193,935
Total Exports, season Aug. 1 to	Nov. 1	304,842	......	1,759,295
Government Crop Est.	Nov. 1	12,847	12,741	11,817(ac)
Active Spindles (000's)	Sept.	22,278	22,078	22,231
WHEAT				
Price cents per bu. Chi. closing				
December	Nov. 9	88⅜-½	84	88⅛
May	Nov. 9	87½	83⅜	86⅜
Exports bu. (000's) since July 1 to	Oct. 26	1,136	......	1,763
Exports bu. (000's) wk. end	Oct. 26	31,637	.....	38,846
Visible Supply bu. (000's) as of	Oct. 26	166,084	......	168,871
Gov't Crop Est. bu. (winter)	Oct. 1	792,332	783,560	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
December	Nov. 9	62⅜-⅜	59⅞	50½
May	Nov. 9	63⅝-¾	61	52¾
Exports bu. (000's) since July 1 to	Oct. 26	14,009	......	3,244
Visible Supply bu. (000's) as of	Oct. 26	51,335	......	48,100
Gov't Crop Est. bu. (000's)	Oct.	12,352,185	2,297,186	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The November 1 cotton crop estimate of the Government showed an increase of 106,000 bales over last month's report. This is higher than the trade had expected. On this basis the latest report of 1,444,441 bales under loan by the Commodity Credit Corporation is equal to over 11 per cent of the crop estimate. The crop yield per acre was estimated at 252.1 pounds. The ginnings figure was put at 9,083,000 bales or about 1,000,000 bales below last year's figure.

* * *

Wheat. At the close of last week profit taking served to stop the rise in futures to over seven cents above the basic Government loan rates. The December contract reached 88⅜ or the best futures price in six months.

Cables from Australia, last week, reported drought has caused a crop failure reducing wheat harvest to 90,000,000 bushels against a high record yield of 215,000,000 bushels last year. The failure is helping the Government to solve marketing problems, which hitherto had caused concern to Federal officials.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents, per lb.				
Domestic	Nov. 9	12.62	12.50	12.50
Export f. a. s. N. Y.	Nov. 9	10.50	10.50	13.00
Refined Prod. Domestic*	Oct.	......	82,843	......
Refined Del., Domestic*	Oct.	......	96,485	......
Refined Stocks, Domestic*	Oct.	......	185,313	......
Copper Sales, Domestic*	Oct.	......	255,331	......
TIN				
Price cents per lb., N. Y.	Nov. 9	51	51	49¾
Tin Plate, price $ per box	Nov. 9	5.00	5.00	5.00
World Visible Supply† as of	Oct. 31	34,236	34,577	38,206
U. S. Deliveries†	Oct.	......	11,410	6,040
U. S. Visible Supply† as of	Oct. 31	......	9,438	23,886
LEAD				
Price cents per lb., N. Y.	Nov. 9	5.80	5.50	5.50
U. S. Production*	Sept.	51,441	47,614	39,359
U. S. Shipments*	Sept.	53,456	51,643	59,889
Stocks (tons) U. S., as of	Sept. 30	41,292	43,231	97,473
ZINC				
Price cents per lb., St. Louis	Nov. 9	7.25	7.25	6.50
U. S. Production*	Oct.	56,422	53,119	50,117
U. S. Shipments*	Oct.	64,787	66,824	73,327
Stocks U. S., as of*	Oct. 31	22,600	30,965	72,405
SILK				
Price $ per lb. Japan xx crack	Nov. 9	2.61½	2.62	3.35½
Mill Dels. U. S. (bales)	Oct. 31	39,877	28,828	96,098
Visible Stocks N. Y. (bales) as of	Oct. 31	......	44,454	27,760
RAYON (yarn)				
Price cents per lb.	Nov. 9	53	53	53
Consumption (a)	Oct.	36.9	30.9	34.8
Stocks as of (a)	Oct.	6.8	8.4	13.0
WOOL				
Price cents per lb. tops, N. Y.	Nov. 9	1.08	1.08	1.06
Consumption, period ending (a)	Sept. 30	......	24,799	......
HIDES				
Price cents per lb. No. 1 Packer	Nov. 9	14½	14½	14.00
Visible Stocks (000's) as of	Sept. 30	12,569	12,566	12,653
No. of Mos. Supply as of	Sept. 30	7.3	7.5	6.5
Boot and Shoe Production, Prs.★	Sept	35,000	39,011	36,807
RUBBER				
Price cents per lb.	Nov. 9	21.10	20.50	20.60
Imports, U. S.†	Sept.	78,792	23,028	41,939
Consumption, U. S.†	Sept.	50,206	50,234	50,150
Stocks U. S. as of	Sept.	214,358	213,002	150,171
Tire Production (000's)	Sept.	4,417	4,621	5,076
Tire Shipments (000's)	Sept.	4,512	4,174	5,658
Tire Inventory (000's) as of	Sept.	9,886	9,732	8,080
COCOA				
Price cents per lb. Dec	Nov. 9	4.72	4.70	469
Arrivals (bags 000's)	Oct.	402	534	467
Warehouse Stocks (bags 000's)	Nov. 8	1,293	1,315	1,065
COFFEE				
Price cents per lb. (c)	Nov. 9	7-7¼	7⅛	7⅜
Imports, season to (bags 000's)	Oct. 31	......	3,219	4,255
U. S. Visible Supply (bags 000's)	Oct. 1	1,488	1,473	1,460
SUGAR				
Price cents per lb.				
Raw	Nov. 9	2.90	2.88	3.00
Refined (Immediate Shipment)	Nov. 9	4.35-4.45	4.45	5.00
U. S. Deliveries (000's)*	1st 9 mos.	5,067(pl)	......	5,547
U. S. Stocks (000's)* as of	Sept. 30	......	9,258	498.0

PRESENT POSITION AND OUTLOOK

Copper. Domestic sales for the month of October will amount to about 125,486 tons. This year is heading for an all-time high as sales of 934,400 tons have been purchased to date.

* * *

Lead. No let-up is found in lead buying although a six-year high was reached at close of the week. American Smelting & Refining and St. Joseph Lead advanced its prices $3 a ton to 5.80 cents a pound at New York for the former and 5.85 cents a pound in New York and 5.65 cents in St. Louis for the latter.

* * *

Zinc. Supplies on hand in this country are now at the lowest point in several years according to the American Zinc Institute. Shipments in October were 2,037 tons below September. Production from all sources was up 3,323 tons over the previous month.

* * *

Silk. October arrivals of raw silk reached the highest figure since a year ago reflecting the tension over the Far Eastern situation at the beginning of the month.

* * *

Rayon. Shipments of rayon yarn for the first ten months of this year have totalled 320,100,000 pounds as compared with 297,200,000 pounds in the corresponding period of 1939, an increase of 8 per cent. Stocks held by producers were at the lowest level since the end of 1939.

* * *

Wool. Many mills report that their productive facilities have been tied up for many months to come because of large contracts by the army for wollen goods.

* * *

Hides. After having withdrawn with expectation of lower prices, tanners at the close of the week stepped into the market to become active buyers. The inflation news probably had its effect in the change of judgement.

* * *

Coffee. The coffee trade is still waiting for the outcome of the marketing quota program recommended to fourteen Latin-American countries.

* * *

Sugar. Assurance that the sugar control would be continued was construed to the sugar trade by the election result. Deliveries in the final quarter are expected to make up much of this year's deficit because deliveries during that period last year were abnormally low.

* * *

Rubber. Cables from Batavia to the Commodity Exchange report that exports of crude rubber from the Dutch East Indies during October may total 50,928 metric tons as compared with 44,606 metric tons in September.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Nov. 9	1¼%	1¼%	1¼%
Prime Commercial Paper	Nov. 9	⅝-¾%	⅝-¾%	⅝-¾%
Call Money	Nov. 9	1%	1%	1%
Re-discount Rate, N. Y.	Nov. 9	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y)	Nov. 2	......	2,913	3,112
Cumulative year's total to	No.v 2	......	......	......
Bank Clearings, N. Y.	Nov. 2	......	3,247	3.425
Cumulative year's total to	Nov. 2	.....	......	......
F. R. Member Banks				
Loans and Investments	Oct. 30	24,602	24,489	22,728
Commercial, Agr., Ind. Loans	Oct. 30	4,773	4,746	4,310
Brokers Loans	Oct. 30	410	420	603
Invest. in U. S. Gov'ts	Oct. 30	9,374	9,317	8,684
Invest. in Gov't Gtd. Securities	Oct. 30	2,627	2,617	2,232
Other Securities	Oct. 30	3,692	3,665	3,291
Demand Deposits	Oct. 30	21,858	21,643	18,556
Time Deposits	Oct. 30	5,349	5,355	5,249
New York City Member Banks				
Total Loans and Invest.	Nov. 6	9,758	9,678	8,771
Comm'l Ind. and Agr. Loans	Nov. 6	1,843	1,827	1,674
Brokers Loans	Nov. 6	326	290	467
Invest. U. S. Gov'ts	Nov. 6	3,957	3,915	3,508
Invest. in Gov't Gtd. Securities	Nov. 6	1,518	1,451	1,132
Other Securities	Nov. 6	1,341	1,423	1,192
Demand Deposits	Nov. 6	9,853	10,031	8,265
Time Deposits	Nov. 6	721	710	666
Federal Reserve Banks				
Member Bank Reserve Balance	Nov. 6	13,979	14,177	11,749
Money in Circulation	Nov. 6	8,385	8,265	7,409
Gold Stock	Nov. 6	21,571	21,499	17,132
Treasury Currency	Nov. 6	3,060	3,056	2,935
Treasury Cash	Nov. 6	2,221	2,187	2,263
Excess Reserves	Nov. 6	6,730	6,930	5,350
NEW FINANCING (millions of $)				
Corporate	Oct.	......	130.5	175.5
New Capital	Oct.	......	68.0	18.2
Refunding	Oct.	......	62.5	157.3

COMMENT

Reflecting month-end influences, the amount of currency in circulation last week attained an all-time high figure, up $976,000,000 from the level of a year ago. Over the past two years, currency has expanded about $1,700,000,000 or about 25 per cent. Particularly noteworthy is the extent to which public demand for currency has braked the expansion of excess reserves. In the latest week, the sharp increase in circulation was largely responsible for a decline of $200,000,000 in excess reserves. Over the past two years, at least, the increase in the amount of currency in circulation has been a more important factor in restraining the increase in excess reserves than have sales of securities by Federal Reserve Banks.

* * *

Commercial borrowings continue to expand. For New York banks, loans to commerce, agriculture and industry have recorded increases for nine consecutive weeks and are currently at the highest figure in three years. In the most recent week the figure was only $103,000,000 below the 1937 peak. For all member banks gains in commercial borrowings have increased in five consecutive weeks, and likewise are both at a seasonal peak and the highest levels in three years. Actually, however, the gains in commercial borrowings have been smaller in relation to the rate of industrial production than might otherwise have been expected. In the main, this reflects the caution shown by industrial managers in expanding inventories, while in the case of many companies substantial holdings of cash have been found to be more than adequate to take care of all current requirements.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 Indexes High	Low	Nov. 2	Nov. 9
309 COMBINED AVERAGE	67.1	45.3	56.4	59.8
5 Agricultural Implements	103.6	63.6	85.6	92.5
6 Amusements	28.8	15.8	20.7	22.4
15 Automobile Accessories	98.8	65.5	92.1	98.8H
12 Automobiles	12.0	7.7	10.2	11.1
12 Aviation (1926 Cl.—100)	235.5	151.8	190.1	208.0
3 Baking (1926 Cl.—100)	12.3	7.9	9.4	10.0
3 Business Machines	117.3	75.1	96.5	99.3
9 Chemicals	174.1	120.5	154.1	159.0
20 Construction	33.6	19.4	26.5	28.6
5 Containers	251.1	168.6	203.7	211.6
9 Copper & Brass	103.6	64.4	85.4	99.3
2 Dairy Products	33.6	24.7	26.5	27.6
7 Department Stores	20.9	13.8	19.1	19.9
6 Drugs & Toilet Articles	58.4	36.1	38.7	40.3
2 Finance Companies	272.1	164.3	187.4	197.8
7 Food Brands	117.8	78.4	85.6	87.2
3 Food Stores	56.1	37.7	45.1	46.1
4 Furniture & Floor Covering	56.9	32.6	43.3	45.8
3 Gold Mining	968.7	551.4	674.8	827.0
6 Investment Trusts	24.5	15.5	19.3	20.3
3 Liquor (1932 Cl.—100)	164.2	109.1	133.7	143.4
9 Machinery	116.2	81.0	108.2	110.6

(Nov. 13, 1936 Close—100)	1940 Indexes High	Low	Nov. 2	Nov. 9
100 HIGH PRICED STOCKS	68.30	49.40	59.89	61.98
100 LOW PRICED STOCKS	58.80	36.43	47.63	51.50
2 Mail Order	94.9	63.8	76.8	77.8
4 Meat Packing	70.0	41.5	48.1	51.3
13 Metals, non-Ferrous	159.0	106.7	137.8	159.0h
3 Paper	19.4	11.8	14.3	15.5
22 Petroleum	86.7	63.1	70.2	74.3
18 Public Utilities	57.6	35.1	47.9	43.0
3 Radio (1927 Cl.—100)	12.9	7.9	10.4	11.5
9 Railroad Equipment	53.2	34.3	47.2	49.5
22 Railroads	13.6	7.3	9.3	9.7
2 Realty	2.7	1.2	2.3	2.4
2 Shipbuilding	118.1	73.5	97.7	107.8
11 Steel & Iron	91.8	59.6	84.4	91.8h
2 Sugar	32.7	17.3	20.0	23.9
2 Sulphur	189.4	135.4	173.5	189.4R
3 Telephone & Telegraph	47.5	30.5	35.5	36.0
4 Textiles	57.3	36.2	51.2	52.1
4 Tires & Rubber	15.3	8.4	10.6	11.2
4 Tobacco	90.2	72.8	75.3	75.4
4 Traction	43.5	32.7	42.1	43.0
4 Variety Stores	248.3	177.2	217.9	226.2
20 Unclassified (1939 Close—100)	103.9	67.3	78.0	87.0

h—New HIGH this year. H—New HIGH since 1937. R—New HIGH record since 1934.

Answers to Inquiries

(*Continued from page 162*)

from the 72 cents a share recorded the year previous. The betterment has carried over into the current year, although net has trended lower in each succeeding quarter, the exact reverse of 1939 results. Nevertheless, nine months net equalled 86 cents a share, up considerably from year earlier levels of 41 cents. The downward drift is likely to continue for a time because the industry is currently plagued by low refined prices, curtailed exports, unbalanced inventories and higher taxes. Considerable earnings improvement could take place before results would be influenced by the new excess profits taxes. Beginning next year the company should receive some benefits from the production of toulene, basic ingredient of the powerful explosive TNT now required in large amounts by the Government. Sales are not broken down as regards the individual products. Nineteen forty dividends should at least equal the 50 cents a share paid in 1939. Despite the comparatively unfavorable near term outlook, longer term holdings need not be disturbed.

Glidden Company

Would you recommend retention of 125 shares of Glidden Co. purchased at 31 for an investor interested in near term appreciation? As a manufacturer of rosin and other naval stores essential to armament manufacture and industrial production, is this company in line for substantial U. S. defense orders? How should Glidden's newly developed powdered iron process affect earnings? Is this product in great demand for armament purposes? How are earnings from its chemical, paint and varnish divisions currently responding to stimulated industrial activity?—L. K. M., Boston, Mass.

Activities of Glidden Co. include the production of shortening and other edible vegetable oils, paints, varnishes and a line of chemicals. An active research policy is being maintained and new products are constantly being introduced. Sales of food products, which remain fairly stable, normally account for about 50% of volume, while paints and chemicals generally account for about one-half of earnings. Finances are rather strong. Capitalization consists of 825,421 common shares and 199,940 shares of 4¼ preferred stock.

Earnings in the past have been somewhat erratic with profits in the year ended October 31, 1939, expanding to the equal of $1.70 a share from a loss of 29 cents a share the year before. Further improvement was scored in the initial half of the current term when earnings were equivalent to 47 cents a share as against 17 cents a share a year before. Relatively favorable results were thought to have been recorded in the six months just completed but earnings comparisons will be hindered since inventory profits aided returns in 1939. Over coming months, demand for foods should be stimulated by improved levels of public purchasing power, while sales of paints and chemicals will be aided by generally better conditions in all phases of the country's economy. Thus the profits outlook remains comparatively good. Since large inventories must be carried at all times, a rise in commodity prices would be of considerable aid. We have no record of any defense orders having been received and the production of powdered iron is not likely to be of much aid to earnings since the demand for the product is not large and prices are low. No great demand for the item for defense purposes is anticipated. One dollar and six cents a share in dividends has been declared for the year and no further distributions are anticipated in 1940. Although the shares are not likely to be dynamic market performers over early months, the issue would appear to possess a fair degree of speculative appeal and we are advising maintenance of present position.

Commercial Solvents Corp.

Kindly give me the benefit of your advice on my 100 shares of Commercial Solvents bought at 15⅛. I am interested in knowing whether your analysts see an early return of this stock to my purchase price. Also let me know how you appraise the earnings possibilities of the company's new biochemical process for restoration of vitamin B to various foods. Have grain alcohol sales suffered as a result of the recent retail liquor price war? Is this company in a position to benefit from U. S. defense orders? Do you suggest retention now?—E. S., St. Albans, L. I., N. Y.

Commercial Solvents Corp. is a leading producer of industrial solvents such as butyl and ethyl alcohol, acetone and methanol which are used extensively in the automobile, rayon, furniture, paper, rubber, silk and plastics industries as well as in manufacture of anti-freeze liquids. A certain amount of whiskey and grain alcohol is produced and sold to the liquor trade. Raw material costs have an important bearing on profits. An active research department is subsidized and by this means additional items are being constantly added to the product list. There has recently been developed a new biochemical process which permits the restoration of vitimin B2 to flour and other foods. The product is now being commercially produced and earnings should eventually benefit. Working capital is ample for present needs and the 2,636,878 common shares are the sole capital obligation.

With one exception, activities have been profitable throughout the trying depression years. Considerable improvement has taken place this year with net income in the first nine months increasing to 61 cents a share from 35 cents a share a year earlier. Fourth quarter results may lift full year figures to about 85 cents a share after taxes as against 61 cents a share in 1939. Industrial solvents should continue in good demand for some months to come. Selling prices are firmer and profit margins have improved. Consequently, further earnings improvement would appear to be in prospect. Price wars in retail liquor stores have as yet had little if any effect on sales of grain alcohol. There is no record of the company having received any defense orders but it is apparently in a position to benefit indirectly from such business and perhaps later directly. Dividends may be resumed in the not too distant future. The shares have a measure of speculative appeal at this time and we would not disturb present commitments. Whether or not the purchase price will be approached, we are naturally unable to say.

American Cyanamid Co.

I am coming to you again for a periodic check-up on my 75 shares of American Cyanamid "B" which I bought at 38½. What are the possibilities of the company's newly perfected "Melamine" in the plastics field now so intensively covered by such companies as duPont, Monsanto, Celluloid, etc.? What

are all of its uses? Can American Cyanamid produce this product commercially with its present facilities? How does the company's outlook look now from the standpoint of its major markets in the automobile, mining, steel, textile, drug and farming industries? Would you say that American Cyanamid is in a position to move up substantially in coming weeks? Do you believe additional purchases warranted?—Dr. P. R. R., Savannah, Ga.

American Cyanamid Co. produces a varied line of chemicals used extensively throughout industry in general. The company continues to expand with new plants being constructed and others enlarged. Through research the product list is constantly growing, the latest edition being Melamine which is expected to have extensive markets in the plastics and lacquers field. The company is well along in its production of acrylo-nitrile, an essential in the manufacture of synthetic rubber. Both of these products may eventually have an important effect on profits. The financial position of the concern continues strong. Capitalization consists of 2,618,365 shares of combined class "A" and "B" common stock, 468,125 shares of 50 cent preferred stock and funded debt of $12,024,000.

Earnings tend to vary with levels of industry in general but operations have been consistently profitable. Good gains were scored last year and have continued through 1940. Net rose to $1.61 a share in the nine months ended September 30th last, as against $1.25 a share the year before. A good final quarter is anticipated and full year results may approximate $2.50 a share before the new taxes which may reduce final figures to levels moderately above $2.00 a share. If attained, this would represent top earnings in the history of the company. Under the stimulus of the National Defense Program and the war in Europe, sales both domestic and foreign continue well ahead of year earlier levels. This condition is apt to endure for some time ahead. Profit margins have widened in line with steady prices and increased output. Further progress earnings-wise is expected. Regular dividends should continue and a year end extra possibly larger than the $1.00 a share paid last year appears possible. In view of the good earnings in prospect and the longer term growth possibilities, the "B" shares held could easily move upward. Retention is warranted and we would not object to additional purchases.

F. W. Woolworth Co.

I would welcome your frank advice on any investment in F. W. Woolworth to the extent of 75 shares bought at 58 some time ago. While I am encouraged with the way the company's domestic business has offset foreign losses to date, I am worried about Woolworth's British properties since I understand that dividends from British subsidiaries equalled $7,000,000 this year. How would earnings have looked without that source? Please tell me how Canadian stores are operating and the effects of war exchange and taxes. Do you feel that retention of my investment is advisable . . . solely on the basis of the company's domestic prospects?—B. C. F., St. Louis, Mo.

Stores of F. W. Woolworth Co., dominant factor in the variety chain store field, can be found throughout this country, Canada and Cuba. Subsidiaries operate in England and Germany. The constant opening of additional outlets, the modernization and enlargement of older stores as well as the lifting of price limits has enabled the company to maintain its position at the head of the field. Finances are extremely sound and capitalization is relatively conservative, the 9,703,609 capital shares being outranked by only $12,480,850 of bonds.

Earnings have been relatively stable for a number of years with net in 1939 equalling $3.02 a share in contrast to $2.95 a share in 1938. Quarterly operating results are not available. Domestic sales, however, which include Canadian and Cuban figures, were 4.5% above comparative totals in the nine months ended September 30th. With many units located in industrial centers the company is in a position to receive further benefits from rising levels of industrial activity. However, it is doubtful whether income for the year will approach that of 1939 because of increased taxes and a decline in returns from the British subsidiary. These receipts roughly totalled 90 cents a share last year but only 70 cents a share this year. Business in England remains favorable, the lower returns being due entirely to adverse exchange rates and the higher taxes. A further falling off is possible next year but with domestic operations expanding, income

at home may gradually approach annual dividend requirements of $2.40 a share. No reduction in payments is anticipated this year at least. Granting the uncertainties involved we remain of the opinion that retention for income is justified.

American Snuff Co.

Do you believe that the investment quality of American Snuff has been weakened by war developments which seem to place emphasis primarily on issues representing essential industries? I have 50 shares of this stock bought at 64 and I am frankly worried about its ability to come back to that price. Do you believe that armament spending should eventually stimulate sales of the company's products? What is the status of sales and earnings now? How did this stock react during the last war? Would you advise a switch at this time?—J. M., Colorado Springs, Colo.

American Snuff Co., one of the oldest concerns in the tobacco industry, is engaged solely in the production of snuff. Average annual output of about 11,000,000 pounds represents approximately one-third of the country's total. The aggressively advertised brands, Garrett, Honest and Dental, find their chief market in the rural South. Sales, which in a general way follow the trend of national income, show only moderate changes from year to year. Working capital is adequate, with cash alone at last accounts being about three times greater than total current liabilities of $982,285. There being no funded debt, only 36,589 shares of $6 preferred stock precede in claim the 434,100 common shares.

Since the boom days of 1929 there has been a gradual decline in operating returns. Profits last year receded moderately to the equal of $3.03 a share from $3.32 a share in 1938. Although 1940 interim or official estimates are not available, full year results are expected to approximate year earlier levels. Demand for snuff may be stimulated moderately by increased payrolls and employment throughout the South. Raw material costs are somewhat lower but increased operating expenses will prevent much if any widening in profit margins. Annual dividends of $3.25 a share have been paid for almost a decade. Although earnings are moderately under current distributions, a strong cash position should permit continuance of the present rate. Looking back at quotations existing during the first World War, we find that share prices, adjusted for present capitalization, ranged from a high of about 48 to a low of 20 which compares favorably with a more recent low of 21¾ established in the beginning thirties. True, the issue lacks the dynamic market possibilities that may exist in certain equities of the heavier industries, but we feel that on an income basis, the shares may be retained at this time.

Simmons Company

There are several questions I should like to put to your analysts about Simmons Company. I have 60 shares for which I originally paid 29⅛. Why does this stock continue to scrape bottom while earnings, judging from the increase reported for the first six months of this year, exceed 1939 levels? With conscription under way, I would like to know whether this company is in a position to produce army cots. Has increased employment and consumer spending stimulated sales of the company's regular line of springs, beds and furnishings? How should the company be affected by the wane in installment buying?—L. T. S., Los Angeles, Calif.

As a manufacturer of high-quality and widely advertised bedding equipment, Simmons Company ranks as the dominant factor in its field. Foreign activities are of minor importance accounting for roughly 10% of total value. Working capital is ample for current needs. Capitalization is rather conservative, in that the 1,158,236 common shares outstanding are outranked by only $10,000,000 of funded indebtedness.

Earnings are given to rather wide cyclical swings with net income for 1939 being equal to $2.11 a share as compared with $1.42 a share in 1938. Results in the first six months of the current year expanded to the equal of 91 cents a share from 62 cents a share in the January-June interval of 1939. Sales are expanding under the stimulus of increasing national income. Furthermore, orders for steel cots have been received from the Government and the probabilities are that the Canadian and English subsidiaries have received similar contracts from their Governments. Additional business of this type should be received. Selling prices are fairly stable and with profit margins thought to have been relatively well maintained, estimates are currently being made that full year results may approximate $2.25 a share after all taxes. There is no doubt but that installment buying is being affected by conscription and recent newspapers articles on certain so-called fraudulent practices in the trade. Selling a household necessity through many department and furniture stores, the probabilities are that this company is feeling the adverse publicity on this type of business. Dividends for the year are expected to approach last year's sum of $1.75 a share. The rather disappointing market performance of the shares over recent months can probably be ascribed to the fact that speculative interests at the present time is largely centered on companies likely to report sharp earnings gains because of the national defense program, and war orders from abroad. Nevertheless, the shares held are not devoid of speculative possibilities and we are counselling their retention.

Impact of New Taxes on Third Quarter Earnings

(Continued from page 139)

been for an increase of 136 per cent in tax imposts from the level of a year ago. Sales in the September quarter were exceeded in only two previous quarters in the company's history—in the June and September quarters of 1929.

The various companies which have been cited here exemplify the extent to which stockholders must accustom themselves to reports of record sales, mounting orders, but only to find profits lagging under the burden of increased taxes. The experience of these companies is general rather than exceptional, and while the heavy tax imposts of the third quarter were due to extraordinary circumstances, the net effect would have been the same if higher taxes had been equally distributed over previous months. This does not necessarily mean that many companies will not be able to report higher earnings and be in a position to reward stockholders with larger dividends, but stockholders would be well advised to orient their hopes and not project them too far ahead into a boom-time horizon.

In fact, for many companies increased taxes may well be sufficient to threaten even the modest dividends of the past four years. Com-

panies whose record of earnings has been consistent, if not spectacular, may be hard pressed to expand business and advance prices sufficiently to meet a 24 per cent normal levy. Excess profits are of scant concern to these companies. Oddly enough the companies which appear most vulnerable in this connection include many of those which rode out the depression with well sustained earnings and dividends.

Cream of Wheat is an example of what may befall other companies in the consumer goods industries. The company's profits in the third quarter were down to $235,242 from $304,127 in the third quarter last year, with earnings equal to 39 cents and 50 cents a share respectively. As a consequence the quarterly dividend was dropped to 40 cents a share, after having been paid at the rate of 50 cents quarterly since 1929. Corn Products, another company with an impressive dividend record, reported earnings equal to only $1.89 a share in the first nine months, while dividends paid in the same period totaled $2.25 a share.

William Wrigley, Jr., Co. reported a gain in total income of about $1,300,000 in the first nine months, but this gain was completely nullified by an increase in taxes from $1,511,358 a year ago to $2,801,142 this year. General Foods, with a gain in net sales of about $2,000,000 for the nine months, was unable, however, to carry any part of this gain to net. Costs increased disproportionately and taxes were about $850,000 higher than a year ago.

In time, it is possible that increasing employment, larger payrolls, and higher consumer purchasing power may enable companies in the consumer industries to alleviate the more drastic effects of higher costs and taxes, through increased sales. The companies best calculated to do so, however, are not likely to be those marketing a product at a more or less fixed price. The most favored group will doubtless be those companies with a flexible price structure.

As this is written, the talk of increased taxes in Washington official circles only confirms what many people thought at the time the second tax bill of 1940 was enacted—that it was only the beginning. Investors will be well advised to evaluate stocks in terms of their relative vulnerability to such taxes.

Reverse Recovery

(*Continued from Page 133*)

disaster can be deferred much longer than most viewers-with-alarm imagine.

We can take some comfort in the thought that much of America's industrial plant is being modernized. Whereas money is a token and debt is a thing expressed on paper, physical wealth is permanent. This boom will leave us with more of it. We live in a machine age. We shall have more and better machines—machines by no means limited to production of armaments. They will help us hold our own in post-war trade competition. They should help us produce more and cheaper goods for our domestic market.

An engineering economy, freed of financial considerations, could meet this problem much as Germany is ordering her economic affairs today. Whether we can do so within the framework of capitalist democracy remains to be seen. It will be the supreme test of this or some other Federal administration.

American Oils Abroad

(*Continued from page 152*)

viously incurred indebtedness, acquired during the process of development. Saudi-Arabia is estimated to have contributed about 10 per cent of the amount indicated for Bahrein but here also the funds were not transferred back to the parent companies since the Saudi-Arabian properties are still in development and all earnings are customarily plowed back into improvements and development work. Active enemy attack would unquestionably cause considerable damage and some loss to the companies but if an "all out" attack is avoided then these properties will probably be the source of considerable additional future income to the two owners.

The attack by Italian bombers on Bahrein Island draws attention to the protection of these outposts of American enterprise. It is, of course, possible that this country would furnish protection to American investments abroad if such action were required but for the present, at least, the British Navy is attending to the job rather well and will probably continue to do so as long as it is able. This is not wholly an altruistic gesture upon the part of Great Britain for with oil as precious as it is to a combatant there is the dual desire to hold intact any potential source of supply and at the same time to prevent the enemy from gaining access to the same supply. The Italian foray against Bahrein was successful mostly because of the surprise element involved and if attempted again the Italians might not be quite so lucky.

Figures on the Far East holdings of the various American oil companies are not reported although by inference and comparison investments of the five large companies discussed in this study are reputed to be well in excess of $500,000,000 with Standard of New Jersey and Socony-Vacuum interests having a book-value of more than $175,000,000 between them. These two companies own jointly Standard-Vacuum Co. which is said to be the largest single factor in the world petroleum industry.

Standard-Vacuum has a number of production interests in the Netherlands East Indies as well as refining facilities. Distribution facilities cover the entire Far East and the west coast of Africa. Japan, which is in virtual control of this territory, is supplied in great part with its petroleum needs by Standard-Vacuum and as long as America stays on an outwardly friendly footing with Japan no harm is likely to befall Standard-Vacuum's holdings. It is possible, however, where Standard-Vacuum holds interests with Dutch or French partners that Japan may eventually usurp the others' position. Of course, if we should by any remote chance go to war with Japan then Standard-Vacuum interests might have to be written off the books.

Texas Corp. and Standard Oil of California also have important interests in the East Indies through ownership of the N. V. Nederlandsche Pacific Petroleum Maatschappi which has important exploration and exploitation concessions in Sumatra and Java and a fifth interest in a company having a long term exploration and exploitation concession in Dutch New Guinea. These properties have large longer term potentialities although since they are still in the development stage, no earnings are likely to accrue to the owners for some time to come.

Income statements of the various large oil companies do not—as a rule—specify exactly what amounts accrue from foreign investments so there is no sure way by which the actual effects of various foreign occurrences can be evaluated. One thing is quite certain, however, and that is the bulk of the individual companies' foreign holdings are located in South America and as such, are safe for the time being at least from European aggression. Even in South America there has been a fairly sharp curtailment of income for most of the South American oils have been sold to Europe in the past and now only England remains. England has sharply stepped up her takings of South American oil but not sufficiently so to offset the loss of Italian, French, German and Scandinavian markets. Then too, all income from other than South American foreign properties is not lost for England and Japan still pay for the American oil purchased abroad as does China, India and the host of smaller consumers.

It will very likely not be necessary for the major American oil companies sharply to write down their foreign investments unless they desire to do so. Nevertheless, earnings from foreign sources will unquestionably be smaller and operating costs higher. As a whole the foreign situation will help to retard oil company earnings although the unfavorable domestic situation will probably cut a larger swath in gross income.

The stock market appears to have rather fully discounted the possibilities of adverse foreign developments in current quotations for the oil shares. Until the domestic situation improves, however, the oil shares are not likely to experience any but sympathetic stimulation in the event of sharply higher general markets. Active participation of this country in the European war would of course expose most of America's foreign oil holdings to enemy reprisal and perhaps capture. In the event of a peace without this country having become actively involved in the conflict the shares of oil companies having large foreign holdings would be in an ex-

cellent position to capitalize on the cessation of hostilities for there is no denying that the properties have tremendous long term profit possibilities which would be assured if there were no longer any danger of them being lost to their present owners.

As I See It!

(*Continued from page 127*)

dor to Turkey, on his return after lengthy conferences with Hitler, informed the Turkish government that the fall of Britain was imminent and the war was about to end in a German victory. Again, just recently, Von Papen claimed that England was on the point of collapse and the United States was too late to save her. It is for this reason that the Turkish press has received so skeptically Hitler's assurances of certain victory for German arms.

If the Turkish doubts can be construed as a straw in the wind as to the Russian attitude it seems quite likely that Stalin will, as before, accept all the gifts that Hitler has to offer—but that he will, as before, continue to play his own game.

As the War Moves On

It becomes increasingly clear that Nazi strategy is no longer based on the carefully worked out plans of the earlier days of ultimatum that ended in the victorious blitzkriegs—that the strategy whether political or military is opportunist—and it is evident from the many recent moves that the Nazis have been feeling out possibilities which so far have not measured up to their hopes and needs.

This situation is due to the failure of the Germans to recognize the importance of British sea power—to their decision to rely on their Luftwaffe—and their tendency to minimize the British blockade.

In the final analysis, Napoleon was defeated by sea power—and that was the decisive factor also in the outcome of the World War. Hitler cannot ultimately win the present war unless he can gain control of the seas.

The Battle of Britain—which relied on air warfare—has failed to produce decisive results. It is not surprising therefore that the Germans have turned to an intensified attack on British shipping in an attempt to counter-blockade the English Isles. However, Britain is in a much better position to withstand this blockade than is Germany. Besides—the United States is very much interested in this Battle of the Atlantic.

The problem of British shipping losses will undoubtedly be solved with the same ingenuity with which other serious obstacles have been overcome.

Montgomery Ward vs. Sears Roebuck

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of 4.7 to 1 is slightly better than Sears' 4.6 to 1. Since that time both companies' current position has been improved although the ratio remains substantially the same.

Earnings per share of the respective stocks are not as close as other factors for last year Sears reported $6.61 a share as compared with $4.91 for Montgomery Ward. On that basis, however, admitting that Sears is currently selling in line with earnings, then Montgomery Ward shares should be selling approximately 50 per cent higher than at present. On the other hand, should Montgomery Ward present price represent the proper price earnings ratio then Sears should be selling approximately 30 per cent lower or, to put it somewhat differently, approximately 40 per cent higher than Montgomery Ward.

In the matter of dividends the two-for-one ratio is more justified. Last year, Sears paid $4.25 a share as compared with Montgomery Ward's $2 a share. On prevailing market prices the return would be 5.31 per cent for Sears stockholders as compared with 5.13 per cent for Montgomery Ward's. The equity value of Sears common was $47.09 a share as compared with $37.22 for Montgomery Ward with the latter figure being closer to the prevailing market price than the former. On the market value of the respective companies obtained by multiplying the respective number of outstanding common shares by their present market price, Montgomery Ward is doing somewhat better than Sears. On such a basis, Montgomery Ward earned about 13 per cent on its total market value while Sears earned but 8 per cent. The figure is not of great significance in actually evaluating the shares but is is an interesting commentary and serves to illustrate that Montgomery Ward share may be too low priced in reference to earning power or, conversely, that the price of Sears may be somewhat high.

The study of the recent past performances of both companies has disclosed a difference between the various features of the companies under observation although none of them is apparently of sufficient magnitude to warrent the wide difference in prices of the shares. Perhaps the reason may be more apparent in the future prospects of both parties.

Both companies will very probably report new record high sales this year with the gains moderately in favor of Sears. The fact that Sears is best represented in highly industrialized areas will probably not give it as great an advantage as some might suppose for Montgomery Ward's particular sales territories are also experiencing an increase in consumer income and over the medium term, forces that tend to make one district or territory prosperous will soon affect the balance of the country. Montgomery Ward may lag behind in the volume of sales gains although not for long. In both cases earnings per share will probably be moderately lower than they were a year ago despite better sales mainly because of much higher taxes and partially because of somewhat higher prices for merchandise that cannot immediately be passed on to mail-order customers. However, since about 60 per cent of the total sales accrue from stores and higher costs can therefore quickly be passed on to the greatest number of customers, the effect of rising costs on earnings will probably be of smaller importance than taxes.

The tax burden of both companies is already heavy although it will probably be much greater before any surcease is obtained. Last year, for instance, Sears paid $3.02 in taxes for every $100 of sales made while Montgomery Ward paid $2.67 on the same basis. This meant a re-

duction in earnings available for the companies' common stockholders of $3.33 per share for Sears and $2.43 a share for Montgomery Ward. In both cases the numerous and sundry tax collectors received nearly 50 cents out of earnings before the stockholders received $1. This year the burden that is to be borne is indicated by half-year results of Montgomery Ward arrived at before provisions for new income tax schedules. In the first six months of this year that company reported net income of $10,274,454 before new taxes or the equivalent of $1.83 a share of common stock as compared with $1.84 a year ago. Had provisions been made for increased taxes net income would have been reduced by approximately $1,750,000 and earnings per share would have been approximately $1.50 for the period under discussion despite the fact that sales were better than 10 per cent above those of a year ago and were headed for new high ground. This is, however, no good reason why Sears shares should sell sharply higher than those of Montgomery Ward although it might be a good basis from which to arrive at the conclusion that perhaps the current market appraisal of the value of Sears' stock is somewhat high.

As can be seen from the foregoing material there is nothing concrete upon which to base justification of the fact that Sears Roebuck common stock sells at approximately double the price of the common shares of Montgomery Ward. The income received is approximately the same on a per cent basis in both instances; both managements do substantially as good a merchandising job and both have almost identical near term problems to face. There is reputed to be a quantity of Montgomery Ward stock overhanging the market although this report is probably based on the earlier plans to issue 772,910 shares of additional stock to improve working capital. Since the company's application to issue the stock has since been withdrawn the threat is more psychological than real.

A more logical conclusion is that Montgomery Ward's shares are approximately in line with current prospects while those of Sears Roebuck have not as yet fully discounted the more adverse possibilities of higher taxes and somewhat lower earnings. On the other hand, if the somewhat pessimistic appraisal of the near term future prospects of the mail-order industry is in error, then Montgomery Ward should offer a greater degree of capital appreciation possibility than Sears which is already selling at comparatively well advanced levels. At any event, the shares of Montgomery Ward, selling at approximately half the price of those of Sears Roebuck, would seem to offer better speculative possibilities while at the same time being in a position where no great decline in market value is to be expected unless prevailing conditions become so adverse that the whole market will react sharply. Even then, actual dollar declines in the value of Montgomery Ward shares are likely to be considerably smaller than would be the case for the shares of Sears Roebuck which are priced at double the figure of Montgomery Ward.

Tobacco Stocks?

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they were in 1929 and are still more than $1 per 1,000 lower than they were 20 years ago. With taxes continually on the increase and thus adding to consumers' cost, it is unlikely that the cigarette makers will ever again be able to obtain the high prices of even a decade ago for their products without encountering a strong drop in the volume of cigarette consumption.

The foreign situation has very little bearing upon the prospects of the tobacco manufacturers for most American tobacco products have long been subject to heavy duty penalties in foreign countries. This is understandable since most foreign countries have a monopoly on tobacco sales and if no monopoly, have their own tobacco industry to support. Accordingly, the total elimination of foreign manufactured tobacco sales would hardly be reflected in the leading tobacco companies' earnings statements. Foreign business does, however, have a strong bearing upon leaf tobacco growers and dealers. The U. S. Government has helped the leaf growers by taking up and holding the usual tobacco bought by England—our largest customer—and letting that country take the tobacco down as they need it. It is not likely that this process can be carried on for an indefinite period of time. The outlook for growers and leaf dealers is therefore not reassuring although the possibility of lower tobacco prices over the longer term is reassuring for the tobacco manufacturers.

Taken as a group, the tobacco manufacturers are among the wealthiest of any industry on a proportionate basis. This is especially true of the so-called "Big-Four" of the industry who manufacture the leading brands of cigarettes. The securities of these companies have always been among the leading favorites of investors. From what can now be seen there is as yet no reason why the better situated tobacco shares should not continue to be regarded as relatively sound investments. Most of the companies have a record of good earnings for many years past and the most recent four years in particular. They will not, therefore, be unduly penalized by the present schedule of excess profits taxes. At some later date the tax schedule will almost of necessity have to be revised upward and such possibilities have bearing upon the problem of measuring the tobacco stocks' current investment position and merit. The tobacco industry, of course, does not now possess the capacity for dynamic growth which characterized it a decade ago.

If, therefore, the investor wishes only to obtain reasonably secure income at an attractive rate, the tobacco stocks have something to offer. Even if present dividends in some instances had to be moderately shaved because of present or future taxes, yields at current prices would still be relatively generous. If, however, capital appreciation is desired, then securities of other industrial groups would offer quicker realization of investment objectives.

American Tobacco Co., owner of "Lucky Strikes," "Herbert Tareytons" and "Melachrinos" among the better known cigarettes, will probably do modestly better than the $5.12 a share of "B" and common stock reported for 1939. The $5 dividend rate, maintained since 1933, is reasonably secure. The current dividend yield is nearly 7 per cent.

Liggett & Myers — the second large member of the "Big-Four"— makes "Chesterfields," "Fatimas," "Piedmonts" and two 10-cent brands. Earnings per share are usually moderately higher than those of American Tobacco Co. although the dividend rate ($5) is the same. The shares are selling well above those of American Tobacco Co. although the usual spread is not as wide as it is today. The return on the stock is also smaller than for American Tobacco, but dividend is covered by a wider margin.

P. Lorillard Co., maker of "Old Golds" and "Dieties," is the smallest of the "Big-Four" although the company has a good earnings and dividend record. The stock is not very volatile from a market standpoint but the current yield is approximately 7 per cent.

The last of the "Big-Four" is R. J. Reynolds, makers of "Camels" and "Prince Albert." In recent years the company has had some trouble in financing inventories to take care of rising "Camel" sales. However, through well planned financial operations, bank loans have been refunded and reduced without harming working capital. Earnings per share have not been very high during the past ten or more years but dividends have been maintained over a long period. Until 1939, dividend payments have often exceeded earnings but since the dividend has been reduced to $2.30 per annum as compared with 1939 earnings of $2.56 a share, there is no probability that any further cuts in dividend distributions will be made for the present at least.

The Government anti-trust suit against the tobacco companies is as yet far from being decided and will probably have little bearing upon results for some time to come.

Heavy Construction Headed For New Peaks

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ignored. These remained relatively stable from the fall of last year until the spring of 1940; latterly, however, they have been moving up, the construction cost index of the *Engineering News-Record* for September having advanced about 5 per cent over a year previous. While this gain is

not sufficient to be harmful in itself, the trend must be watched. As already noted, the N D A C is particularly interested in holding prices in line and it is fairly certain that this body will be quick to exert pressure against any undue acceleration or persistence of the rise.

The magnitude of the expansion in heavy construction that seems likely to result from the requirements of the defense program superimposed upon the volume of building arising from ordinary needs is suggested by the total of engineering contracts let in the third week of October—$238,793,000. This topped by far the best figure of any other week of 1939. Needless to say, these times the total of the corresponding week of 1939. Needless to say, these figures vary widely from week to week, but that cited is nonetheless significant of what is developing. It now seems fairly clear that, despite a slow start in the early part of the year, the 1940 total of heavy engineering awards will fall little short of 1929's $4,000,000,000. Next year this level should easily be surpassed.

Looking beyond the implications of the armament program to the factors bearing more on the long term trend, a major influence likely to contribute to heavy construction activity of the future is industrial decentralization and migration. Another factor constantly at work is that of advancing manufacturing technique involving new plant layouts. Perhaps the most important impetus that heavy building could derive apart from the defense program, however, would be that accompanying a reawakening of the American spirit of enterprise and the tremendous industrial expansion that would undoubtedly follow. How near or far that day may be is beyond the realm of prediction, but among all the normal factors bearing on heavy construction prospects, it is easily the most important.

These, however, are all matters having to do with the longer range future. Of more immediate significance are those growing out of the defense program and, of somewhat less current importance, the non-defense plant requirements of industry in the next couple of years. On balance, these are favorable, but what they boil down to in terms of stock price movements among the leaders of the building group is another matter. Generally speaking, there is probably no valid reason for expecting the building stocks to outstrip the market as a whole. As a group they have always been rather sluggish performers, though it might be added that they have had nothing to feed upon in recent years in the way of a boom of the proportions that now seems indicated in the field of heavy construction. Also, it is next to impossible to generalize on their behaviour; they are far from equal in their tax vulnerability, their operating and capital leverage, or their capacity, as reflected in the principal product lines of each, for sharing in the specialized type of construction where the greatest gains are likely to be seen.

In conclusion, however, it would appear that a place for several of the better situated and diversified building shares should be found in any well balanced portfolio. Attractive yields are not uncommon and, assuming reasonably careful selection and a willingness to switch from one issue to another when this seems called for, appreciation of capital should also be realized.

R. H. Macy

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company continues to follow its present expansion program. However, since every new outlet involves greater expenditures to make sales, earnings per share are not likely to follow suit. Moreover, when, as and if the demand for consumers' goods declines in obedience to the broad economic cycle of business, the cost of maintaining these additional outlets will take an increasing toll of earnings with the result that Macy's—and other similar retail organizations'—former earnings stability will be increasingly reduced.

Macy's financial position is satisfactory. As of August 3, 1940, current assets of $29,448,561 were better than $4\frac{1}{2}$ times total current liabilities of $6,407,983. Inventories of $16,884,468 at that time were about $1,600,000 higher than a year ago but the increase would seem warranted by prospective business and stocks themselves were moderate in view of annual sales in excess of $130,000,000. While the opening of new branches will expand inventories further as time goes on, if present ratios of inventories to sales are maintained, there is not likely to be any trouble from this source. Among the current liabilities were $500,000 in bank loans which were not present a year ago but this sum is more than offset by the reduction of about $1,600,000 in long term debt which totalled $10,348,750 a year ago. Of the long term debt, $5,000,000 is a $2\frac{1}{4}$ per cent serial loan maturing $625,000 per annum and the balance—$3,780,000—is in serial mortgages and a small amount of miscellaneous debt. Other than these debts there are no capital obligations prior to the 1,657,819 shares of capital stock now outstanding.

The company has maintained a dividend rate of $2 per annum since 1933 and in 1937 supplemented this distribution with an extra of $0.75 a share. Three times during the period the company failed to earn the full amount of the dividend by a moderate margin although the dividend was paid even if unearned. There's not likely to be any change in this policy for the present and despite the fact that earnings will very closely approximate $2 per share this year, the dividend is not as yet in danger from that source. What may happen at a later date should earnings continue to decline modestly or should the directors feel the need of conserving cash is another problem and contains too great an element of conjecture to warrant any but passing consideration. As far as can now be seen, the current dividend rate is secure.

Macy shares have been rendering a fairly good account of themselves in the market but the maintenance of fairly steady price levels is probably in recognition of a good rate of income which is fairly well assured of maintenance. With prospects for only moderate advances in earnings —if any—over the medium term, the shares do not possess the inherent qualities for dynamic action in the event of sharply higher markets. Even should consumer purchasing power again reach the record heights of a generation ago, it is probable that Macy will not again experience similarly high profits because of the growth of heavy competition and higher costs during the intervening time.

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